REPORT ON THE
FEDERAL COMMUNICATIONS COMMISSION
FISCAL YEAR 2001
FINANCIAL STATEMENTS

01-AUD-07-28 April 30, 2002

Office of Inspector General

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Federal Communications Commission

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: April 30, 2002

TO: Chairman
Managing Director
Chief Financial Officer

FROM: Inspector General

SUBJECT: Audit of the Federal Communications Commission's Fiscal Year (FY) 2001 Financial Statements

This letter transmits Clifton Gunderson LLP's (hereafter referred to as "CG-LLP") report on its FY 2001 financial statement audit of the Federal Communications Commission (FCC) and the results of the Office of Inspector General's (OIG) review thereon.

At the direction of the Department of the Treasury, FCC prepared consolidated financial statements in accordance with Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended, and subjected them to audit. The Chief Financial Officers Act of 1990 (Public Law 101-576 referred to as the "CFO Act"), amended, requires the FCC OIG, or an independent external auditor as determined by the Inspector General, to audit agency financial statements in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Under a contract monitored by the OIG, CG-LLP, an independent public accounting firm, performed the audit of FCC's FY 2001 financial statements.

OIG Evaluation of CG-LLP's Audit Performance

To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of CG-LLP's audit of FCC's FY 2001 financial statements in accordance with *Government Auditing Standards* and OMB Bulletin No. 01-02*, Audit Requirements for Federal Financial Statements*.

Specifically, we:

- reviewed CG-LLP's approach and planning of the audit,
- evaluated the qualifications and independence of its auditors,

- monitored progress of the audit at key points,
- examined working papers and audit documents to evaluate compliance with *Government Auditing Standards*,
- reviewed CG-LLP's audit reports to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 01-02, and
- performed other procedures we deemed necessary.

Based on the results of our review, we determined CG-LLP planned, executed, and reported the results of its audit of FCC's FY 2001 financial statements in accordance with applicable auditing standards. Therefore, in our opinion, CG-LLP's work provides a reliable basis for the firm's opinion on FCC's FY 2001 financial statements. Based on our review of the audit, we concur with CG-LLP's finding of reportable conditions related to internal control and instances of noncompliance with applicable laws and regulations. Accordingly, we concur with its reports thereon.

Opinion on the Financial Statements

CG-LLP issued a qualified opinion on FCC's FY 2001 Consolidated Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Financing, and Combined Statement of Budgetary Resources and an unqualified opinion on the Statement of Custodial Activity. CG-LLP opined, except for the effects of such adjustments to the FY 2001 Consolidated Balance Sheet, and the related Consolidated Statements of Net Cost, Changes in Net Position, and Financing, and the Combined Statement of Budgetary Resources, if any, as might have been necessary had we been able to perform adequate audit procedures on the reporting entities, amounts and programs costs allocation referred to in the explanatory paragraph, the Principal Statements and related notes referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2001 and 2000, and its net cost; changes in net position; budgetary resources; reconciliation of net cost to budgetary obligations; and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Matters Pertaining to Effectiveness of Internal Control Identified During the Audit

In performing its internal control testing of controls necessary to achieve the objectives in OMB Bulletin No. 01-02, CG-LLP identified matters relating to significant deficiencies in the design or operation of FCC's internal control that, in its judgment, could aversely affect FCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Specifically, these matters where categorized as material weaknesses and reportable conditions per definitions of the American Institute of Certified Public Accountants.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relating to the financial statements may occur and not be detected within timely period by the employees in the normal course of performing their assigned functions. CG-LLP identified material weaknesses in the areas of:

- Financial Reporting
- Cost Accounting System
- Universal Service Fund Financial Reporting
- Loans Receivable and Related Accounts
- Information Technology

CG-LLP identified additional reportable conditions not considered to be material weaknesses. Other reportable conditions include:

- Controls Surrounding Data Used in the Preparation of the Management Discussion and Analysis
- Internal Controls Over Certain Accounts Receivable
- Supporting Documentation and Controls on Property and Equipment
- Controls Over Accounts Receivable and Accounts Payable Subsidiary Records
- Compliance with Certain Aspects of the Clinger-Cohen Act of 1996
- OMB Circulars No. A-127 and A-130 Reviews

Results of Tests of Compliance with Laws and Regulations

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

CG-LLP's tests disclosed instances of noncompliance with specific laws and regulations required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02 as follows:

- Chief Financial Officer s Act of 1990
- Debt Collection Improvement Act of 1996

- Government Performance and Results Act of 1993
- Federal Financial Management Improvement Act of 1996

In accordance with generally accepted government auditing standards, the Reports of the Independent Auditor prepared by CG-LLP are dual dated, February 22, 2002 and March 5, 2002, the last days of audit fieldwork.

Should you or your staff have any questions, please contact me or Thomas Bennett, Assistant Inspector General for Audit, on (202) 418-0470. We appreciate the courtesies and cooperation extended to Clifton Gunderson LLP and to the OIG staff during the conduct of the audit and review.

H. Walker Feaster, III
Inspector General

Attachment

TABLE OF CONTENTS

TABLE OF CONTENTS

TABLE OF CONTENTS

SECTION III INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

SECTION IV FEDERAL COMMUNICATIONS COMMISSION FISCAL YEAR 2000 ANNUAL FINANCIAL REPORT

SECTION V STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

SECTION VI ACRONYMS

SECTION I

INDEPENDENT AUDITOR'S REPORT

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Inspector General of the
Federal Communications Commission

We have audited the accompanying consolidated balance sheets of the Federal Communications Commission (FCC) as of September 30, 2001 (FY 2001) and 2000 (FY 2000), and the related consolidated statements of net cost and changes in net position, combined statements of budgetary resources, and consolidated statements of financing and custodial activity for the years then ended (collectively the Principal Statements). These Principal Statements are the responsibility of the FCC's management. Our responsibility is to express an opinion on these principal statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin require that we plan and perform the audits to obtain reasonable assurance about whether the Principal Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Principal Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Principal Statements' presentation. We believe our audits provide a reasonable basis for our opinion.

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The FCC did not include the Local Number Portability Administration (LNPA), a FCC reporting entity, in its Principal Statements. The FCC was not able to provide adequate financial information to enable us to determine the materiality of this reporting entity to the FCC Principal Statements, nor were we able to satisfy ourselves as to the significance of the LNPA reporting entity to the FCC Principal Statements by performing other auditing procedures.

The FCC changed its method of accounting and financial statement presentation of the Universal Service Fund's, a FCC reporting entity, collections and disbursements for FY 2001 late in the audit process, and were unable to obtain adequate documentation to support certain amounts including earned revenues of $5,353 million and program costs of $4,981 million. We were unable to satisfy ourselves as to these amounts by performing other auditing procedures.

The FCC changed its financial statement presentation of FCC costs for FY 2001 on the statement of net cost as described in Note 17, late in the audit process. *FY 2001 Budget Estimates Submitted to Congress* established five programs from which costs are accounted. The change from four FCC reporting entity programs in FY 2000 to five programs in FY 2001 did not, however, result in a corresponding change in the FCC cost accounting processes. The FCC did not collect cost information using the new programs, and continued to track costs using the same cost activity codes for the four programs in FY 2001. As a result, the FCC had to re-allocate costs after year-end from the four programs to the five programs for its statement of net cost using budget and other sources. We were unable to adequately verify these allocations, nor were we able to satisfy ourselves as to the allocation of the costs to the five programs by performing other auditing procedures.

In our opinion, except for the effects of such adjustments to the FY 2001 consolidated balance sheet, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources, if any, as might have been necessary had we been able to perform adequate audit procedures on the reporting entities, amounts and program costs allocation referred to in the preceding paragraph, the Principal Statements and related notes referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2001 and 2000, and its net cost; changes in net position; budgetary resources; reconciliation of net cost to budgetary obligations; and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 29, Subsequent Events, on March 4, 2002 the Supreme Court of the United States agreed to hear a case involving the FCC auction in FY 2001 (Auction 35) of certain licenses of spectrum associated with previously auctioned spectrum licenses. The winning bids from Auction 35 represent recoveries on a significant portion of the FCC's credit reform delinquent loans. The recovery is a significant factor in the FCC's calculation of its annual credit reform subsidy. The accompanying Principal Statements have not been adjusted for any potential effects of this subsequent event.

As discussed in Note 28, Change in Accounting Principle, the FCC changed its accounting treatment for the Universal Service Fund from "custodial" method in FY 2000 to "programmatic" method in FY 2001.

Also, as discussed in Note 1, Summary of Significant Accounting Policies: Revenues and Other Financing Sources: Radio Spectrum Auction Proceeds (Exchange), the FCC changed its policy of recognizing auction revenue in FY 2001 from recognizing revenue at the time the second down payment is received to the time a "prepared to grant" public notice is issued.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 22, 2002 on our consideration of the FCC's internal control over financial reporting, and on our tests of the FCC's compliance with certain provisions of laws and regulations. These reports are an integral part of our audits performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the Principal Statements taken as a whole. The Management Discussion and Analysis and Required Supplemental Information are not a required part of the Principal Statements but are supplementary information required by OMB Bulletins entitled *Form and Content of Agency Financial Statements* (No. 97-01, as amended, and the portions of No. 01-09 that are required to be implemented in fiscal year 2001). The Other Accompanying Information is presented for the purposes of additional analysis and is not a required part of the Principal Statements. Such information contains a wide range of data, some of which are not directly related to the Principal Statements. We have applied certain limited procedures, which consisted principally of comparing this information for consistency with the Principal Statements and discussing the methods of measurement and presentation with the FCC management. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Calverton, Maryland
February 22, 2002, except for Note 29, as to which the date is March 5, 2002

SECTION II

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control

To the Inspector General of the
Federal Communications Commission

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2001, and have issued our report thereon dual dated February 22, 2002 and March 5, 2002. We conducted our audit in accordance with generally accepted auditing standards in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

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Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be reportable conditions and material weaknesses.

In addition, with respect to internal control related to performance measures reported in FCC's Management Discussion and Analysis (MD&A), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls. However, we noted certain significant deficiencies in internal control over reported performance measures discussed in the following paragraphs that, in our judgment, could adversely affect the agency's ability to collect, process, record, and summarize performance information and report performance measures in accordance with management's criteria.

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MATERIAL WEAKNESSES

I. Financial Reporting (Modified Repeat Condition)

The Chief Financial Officers (CFO) Act of 1990 assigned responsibility for developing and maintaining integrated accounting and financial management systems including financial reporting and internal control to each Federal agency. OMB Bulletins No. 97-01 and 01-09, *Form and Content of Agency Financial Statements*, define the form and content of financial statements to be prepared by each agency. To accomplish the objective of complying with the CFO Act, the agency is required to develop a system to prepare a complete set of financial statements on a timely basis in accordance with generally accepted accounting principles. The statements are to result from an accounting system that is an integral part of a total financial management system containing sufficient structure, effective internal control, and reliable data. Financial reporting also consists of policies and procedures related to the processing and summarizing of accounting entries and the preparation of financial statements.

FCC's financial reporting process has significantly improved over the last couple years. FCC has established and maintained adequate audit trails used in preparing its financial statements, and prepared United States Standard General Ledger (USSGL) crosswalks. Still, many of the planned policies and procedures designed to enhance the reliability, efficiency and the effectiveness of the financial reporting process have not been fully implemented or need further improvement. Full implementation of these policies and procedures would allow FCC to prepare reliable financial statements in a more timely and efficient manner at interim periods and at year-end.

FCC's financial reporting weaknesses are detailed as follows:

A. Internal Controls on the Preparation of Financial Statements

OMB Bulletin 01-02 (2.g.) defines "internal control" as it relates to the Principal Statements, as a process effected by the agency's management and other personnel, designed to provide reasonable assurance on the reliability of financial reporting.

Our review of the draft financial statements disclosed numerous errors that we believe, would have been detected had adequate and effective quality control review procedures been in place and applied to the statements. Although these errors were eventually corrected, it resulted in delays in the audit process. Some significant errors are as follows:

- Overstatement of $1.2 billion in the Revenue section and the Transferred to Others section of the Statement of Custodial Activity (SCA) resulting from an erroneous journal entry.
- Understatement of $4.6 billion in the credit reform costs and the credit reform revenue of the Statement of Net Cost (SNC) due to an erroneous eliminating entry.
- Understatement of $11.9 million in the Obligated Balance, Net – end of period and of $12.8 million in the Outlays of the Statement of Budgetary Resources (SBR) due to an incorrect formula link on the cross-walk spreadsheet used in preparing the statement.

- Understatement of $25 million in the loan interest revenue (credit reform revenue) of the SNC due to untimely recording of transactions and ineffective or inadequate review process.
- Understatement of $12 million in the Universal Service Fund (USF) data costs in the initial SNC due to erroneously transferring of nine months instead of 12 months of data from the USF trial balance to the FCC financial statements consolidating spreadsheets.
- Overstatement of $34 million in the USF accounts receivable of the Balance Sheet (BS) due to a duplicate transaction.
- Understatement of $36 million in the USF accounts receivable and the accounts payable of the BS because FCC did not adjust credit balances in accounts receivable.

Management Comments:

Management concurs. The increasing financial statement demands and the implementation of operational controls have drawn resources away from the final review process. FCC believes that the controls now implemented at earlier points in the process will allow additional time in the review phase to perform better quality control and analytical procedures. Additionally, USAC has increased its internal controls to prevent the issues noted from recurring.

B. Supervisory Review of the USF and Telecommunication Relay Service Fund (TRS) Financial Reporting Process

FCC does not have any documented policies and procedures, nor did it apply adequate review procedures to ensure that USF and TRS financial data are accurate, reasonable, and properly supported prior to inclusion in the consolidated financial statements. However, FCC did provide data requests and communicated with USF and TRS entity management regarding consolidation efforts. Nevertheless, adjustments as noted above and below were only identified during the audit process.

- Evaluation of the allowance for doubtful accounts was not in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, resulting in understatement of $30 million.
- Investments were not accounted for in accordance with SFFAS No. 1, resulting in understatement of $9 million in investments (net of $4 million in investment discounts) and an overstatement of $12 million in interest receivable.

FCC management is responsible for obtaining reasonable assurance on the completeness and the reliability of the USF and TRS financial reporting and its compliance with laws and regulations before information is consolidated into the FCC financial statements.

Management Comments:

Management concurs. Similar to the situation above, FCC has been working with Universal Service Administrative Company (USAC) to develop more standard reporting practices such as standard information requirements and reporting timeframes. Additionally, FCC intends to meet with the USF parties to discuss what can be improved for the fiscal year (FY) 2002 process. Full integration of USF into FCC's reporting will not occur until the USF is deemed Federal funds and subject to full Federal reporting from apportionment, allocation, and collection through disbursement.

C. Changes in Accounting for Program Costs

FY 2001 Budget Estimates Submitted to Congress established five programs from which costs are accounted. The change from four FCC reporting entity programs in FY 2000 to five programs in FY 2001 did not, however, result in a corresponding change in the FCC cost accounting processes. FCC did not collect cost information using the new programs, and continued to track costs using the same cost activity codes for the four programs in FY 2001. As a result, FCC had to re-allocate costs after year-end from the four programs to the five programs for its SNC using budget and other sources which could not be adequately verified. In addition, FCC did not have a clear description or definition of costs that should be charged to the newly established program, Spectrum Management. (See related finding in Section II, Cost Accounting System.)

Management Comments:

Management concurs. The current FCC cost accounting system is antiquated and did not have the flexibility to convert from a four to a five program basis. FCC was in the process of and has since completed a requirements analysis for a new cost accounting system. Until FCC procures and implements a new system, FCC will be forced by resource limitations to continue to perform additional cost finding techniques, similar to the ones performed at year-end, to allocate costs to five programs.

D. Auditable Financial Data for the Local Number Portability Administration (LNPA)

FCC Office of the General Counsel (OGC) determined that LNPA met the indicative criteria of a reporting entity per Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display.* OGC further stated that if LNPA also met the materiality criterion, the SFFAC would require the LNPA to be considered a component of FCC. To determine LNPA's materiality to the FCC consolidated financial statements, FCC provided financial data that was not supported by adequate information for audit purposes.

Management Comments:

Management concurs. For FY 2002 reporting, FCC has made contact with the entity and will initiate additional efforts to gain the information necessary to both validate the inclusion of the LNPA within the FCC entity and obtain the necessary information required by the rules governing financial reporting.

E. Integrated Financial Management Systems (Modified Repeat Condition)

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

Having a single, integrated financial management system does not necessarily mean having only one software application covering all financial management system needs within an agency. Also, it does not mean that all information is physically located in the same database. Rather, a single, integrated financial management system is a unified set of financial systems linked together electronically in an efficient and effective manner to provide agency-wide financial system support. Integration means that the user is able to have one view into systems such that, at whatever level the individual is using the system, he or she can obtain needed information efficiently and effectively through electronic means. Interfaces are acceptable as long as the supporting detail is maintained and accessible to managers. Interface linkages must be electronic unless the number of transactions is so small that it is not cost beneficial to automate the interface. Easy reconciliations between systems, where interface linkages are appropriate, must be maintained to ensure data accuracy.

FCC utilizes the Federal Financial System (FFS) as its general ledger and core financial management system. FFS is not capable of generating most data analysis user reports on a real time basis. To compensate for FFS limitations, FCC uses a software application to download data from the FFS for its analysis. Also, FCC's fee collection database is not linked to its licensing databases, making it difficult for FCC to perform routine automated checks on whether all licensees have paid their regulatory fee. Other financial management systems used at FCC include the property management system, loan database spreadsheets, license databases, collection system, cost system, commercial accounting software for fines and forfeitures, and various spreadsheet applications. None of these financial management systems are integrated.

FCC has an on-going effort during the last two years to strengthen its financial management systems. FCC management expected to achieve some level of financial management systems' integration by implementing the Revenue Accounting and Management Information System (RAMIS) by September 30, 2000. RAMIS is designed to integrate, among others, the direct loan system, fee billing and collection systems, fines and forfeitures, licensees' databases, interface with FFS and include a module for cost accounting system. FCC, however, did not meet this expectation, as RAMIS was not operational at September 30, 2001. As of September 30, 2001, four of the seven modules were completed and parallel testing of the four modules remained in progress.

Management Comments:

Management concurs. The effort to develop an integrated financial system has been ongoing since FY 1999. A major part of that effort is the implementation of the RAMIS. During FY 2002, FCC plans to implement additional modules; all modules will be fully integrated with FFS.

During FY 2001 the FCC implemented the Commission Registration System (CORES) that assigns a common FCC Registration Number (FRN) number to licensees making payments. The implementation of this system is important to the integration of the multiple licensing databases maintained by the FCC and the fee collection system (ultimately RAMIS) because the FRN will be the universal data field that can be used to link these systems.

Finally, FCC completed a requirements analysis in FY 2001 for a new cost accounting system which it hopes to implement in FY 2003.

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

As reported in the prior year, FFS system setup and posting model definitions do not fully comply with the transaction posting models consistent with USSGL guidance and policies, when recording and classifying transactions. Although USSGL numbers, definitions, and standard accounting entries were regularly updated and revised by the Department of the Treasury's, Financial Management Service (FMS) over the years, the FCC general ledger system set-up remained substantially unchanged until recently. Thus, system deficiencies may impair the quality and the reliability of the financial management information.

In an effort to address this weakness, FCC contracted with FFS' developer who made detailed recommendations to enhance FFS compliance with the USSGL and to facilitate use of external reporting capabilities of FFS. The final review and testing of the recommended changes, however, were still in progress during FY 2001.

Management Comments:

Management concurs. All the recommendations provided by the outside contractor FCC hired at the close of FY 2000 were reviewed and the changes have now been implemented. FCC continues to evaluate its posting models with respect to impact on financial reporting and is aware of additional changes that need to be made in FY 2002.

G. Record Activities Timely and Prepare and Analyze Financial Activity (Modified Repeat Condition)

Although FCC prepared its interim financial statements at June 30, 2001, the interim statements did not reflect current accounting activities for certain areas and the form and content of the principal financial statements only partially met the guidance in OMB Bulletins No. 97-01 and 01-09. Interim financial statements are expected to reflect the current financial condition and operations to allow management to analyze data and make decisions based on reported information. The delays in recording transactions and events resulted in substantial number of journal entries made toward the end of the reporting period. Some of the activities that were not being recorded timely were as follows:

- Software placed in service was not reclassified to the completed software category and was not being depreciated as a result.
- Loan collections, interest receivable and revenue were not consistently recorded when earned but recorded when needed for financial statement preparation purposes.
- Evaluation of the allowance for doubtful accounts and accounts payable accrual were not being performed until year-end.

Not recording or delays in recording transactions make data on the interim financial statements unreliable and unusable by management for decision making purposes. *Standards for Internal Control in the Federal Government*, issued by the General Accounting Office (GAO) in November 1999, page 15 states that "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions." Regular financial statement preparation and analysis on a monthly or quarterly basis may eliminate the need for many of these adjustments during the year-end closing process and reduce the risk that material errors or irregularities in general ledger accounts remain undetected until after the end of the fiscal year.

Management Comments:

Management concurs. FCC implemented a number of account reconciliations during FY 2001 that will be in place for FY 2002 and will help improve the timeliness of adjusting entries. Changes have already been made to the in-process software schedule, designed to highlight more clearly those items that have been added to in-process or moved to fixed assets, for the first quarter of FY 2002. The timeliness of fixed asset entries will be a target for improvement in FY 2002.

FCC continues to work towards improving the recordation of its loan receivable and interest receivable transactions via our internal system, RAMIS, as well as the parallel processing by our loan service provider. Until the loan service provider is fully implemented, FCC will continue to rely on the loan model prepared by its contractor, recognizing the associated delays inherent in that process.

H. Federal Agencies' Centralized Trial-Balance System (FACTS) I Reporting Process

FCC is required by FMS to submit final FACTS data by March 1, 2002 in accordance with the Treasury Financial Manual (TFM) Transmittal Letter No. 602. In addition to the submission of the FACTS data, FCC CFO is required to perform certain procedures and submit the results of these procedures to FMS by March 1, 2002. FCC obtained permission from FMS to submit the FCC CFO Final Account Grouping Worksheet (AGW) and the USF CFO Final AGW procedures separately on different dates. The FCC CFO AGW report was submitted on March 1, 2002, and the USF CFO AGW report was submitted on March 6, 2002.

Although the FCC CFO Final AGW report was submitted by the due date, two resubmissions were requested by FMS to the Final FCC AGW report. These resubmissions were due to FCC errors and failure to incorporate last minute adjustments to the Final AGW report.

In addition to the Final AGW reports, FCC was also required to submit CFO Procedures for Intragovernmental Activity and Balances (Intragovernmental Report) by March 1, 2002. We reviewed three of these procedures under an agreed-upon procedures engagement for the Office of Inspector General (OIG). Our review of the CFO procedures disclosed that the response to one of the three procedures was not adequate, resulting in our inability to perform the agreed-upon procedures. Further inquiry disclosed that the report was completed late and in a rush to meet the reporting deadline set by FMS, there was no adequate review or a thorough thought process as to how to respond to this specific procedure.

Management Comments:

Management concurs. The USF CFO Final AGW was submitted late and FCC informed FMS as soon as it was aware of problems that would preclude meeting the March 1st deadline. FCC will enhance the existing FACTS I polices and procedures to include an integrated plan for accomplishing all the required work outlined in the TFM and specified deadlines. Proper cutoff dates will be established to complete final report drafts to allow an adequate review process by management prior to submitting the reports to OIG, OMB, GAO, and FMS.

I. Combination of Reportable Conditions May Materially Impact Financial Statements (Repeat Condition)

Reportable conditions noted in this report are internal control weakness relating to reconciliation procedures which collectively could have a material impact on FCC's ability to produce reliable financial statements in an efficient and timely manner and to comply with the intent of the CFO Act.

Management Comments:

Management concurs. Management acknowledges that collectively, the reportable conditions highlighted in the report could result in errors that would be material to the financial statements.

Recommendations:

We believe that FCC's continued efforts to meet its commitment to excellence in financial reporting have resulted in many positive changes in this year's financial reporting process. FCC established a separate Financial Statements and Policy Group (FSPG) within its Financial Operations Center (FO) to address both financial statement preparation and financial policies and procedures. The FSPG, however, needs more time to put its financial processes and controls in place and to implement them. We recommend the following:

1. Implement an effective quality control mechanism to ensure that a senior official other than the preparer reviews the financial statements prior to issuance.

   Management Comments:

   Management concurs. FCC has only informal controls in place that allow for review of its statements by senior management. In FY 2002, FCC will complete policies and procedures surrounding financial preparation and will formalize controls in those procedures.

2. Ensure that USF and TRS financial information provided by the USAC and National Exchange Carrier Association (NECA), respectively, are reviewed for accuracy, reasonableness, and propriety prior to its incorporation in the FCC consolidated financial statements. Establish two-way open communications allowing USAC and NECA to review USF information included in the FCC consolidated financial statements.

Management Comments:

Management concurs. Steps were taken in FY 2001 to define requirements and improve communications between FCC and USF entities. Steps included the establishment of required schedules to be provided on a quarterly basis and the conduct of several meetings with both groups to discuss requirements. FCC intends to formalize the process in its policies and procedures manual; however, full, effective control in this area is unlikely until a final determination is reached concerning the Federal nature of the funds.

3. Formalize and continue the assignment of one or more FO staff who will be responsible for obtaining an in-depth understanding of the USF and the TRS financial operations, and who will work with the Common Carrier Bureau (CCB) to comprehensively review financial and operational information provided by USAC and NECA.

Management Comments:

Management concurs. Management has incorporated the assignment of one individual within the Office of Managing Director (OMD) as a point of contact for USF and other entities.

4. Document clearly the legal, financial, and operational boundaries of FCC, USF, TRS, USAC, and NECA. With the assistance of OGC, USAC, and NECA, FCC management needs to formally define in writing each financial management role and responsibility to avoid confusion and misunderstanding.

Management Comments:

Management concurs.

5. Develop a formal financial reporting compilation process that adequately addresses the processes and the issues arising from consolidating the USF and TRS.

Management Comments:

Management concurs. In FY 2001 FCC developed a more formal crosswalk for converting USF entities' trial balances to the USSGL and then linking them to the financial statements. However, policies and procedures with respect to this process were not completed by year-end. These procedures will be completed and implemented during FY 2002 assuming a final determination concerning the Federal nature of funds is provided timely.

6. Revise the *Financial Coding Handbook's* activity codes and implement cost accumulation techniques to track the costs of FCC reporting entity's five programs (excluding credit reform which is tracked separately.) In addition, FCC should track the USF program costs incurred by the FCC reporting entity.

   Management Comments:

   Management concurs. FCC recognizes that additional cost finding techniques need to be used in FY 2002 to improve the accuracy of the net cost allocation. FCC intends to utilize an independent certified public accounting firm to assist in performing these procedures. Current activity codes will not be revised; other costing methods will be used for FY 2002.

7. Provide a clear, consistent and uniform terminology and definition of each program, especially the Spectrum Management program. Clearly document and outline direct costs that should be charged to each program.

   Management Comments:

   Management concurs. As part of the performance of additional cost finding techniques, FCC intends to develop a better documented understanding of how bureaus and offices are involved with each program and the level of their involvement.

8. Train employees on the proper use of the revised activity codes and emphasize the importance of properly coding their time.

   Management Comments:

   Management concurs. FCC does not intend to revise the current activity code structure for FY 2002. FCC states that reinforcement of proper coding practices is always beneficial.

9. Obtain adequate auditable information from LNPA to support its financial information.

Management Comments:

Management concurs. FCC established a position within OMD to address specific outside entity reporting issues, of which, LNPA is primary.

10. Assess the degree of integration that the RAMIS will provide in the overall financial management systems. Document the plan outlining the steps taken (i.e., processes, data stewardship, management information, systems architecture, internal control) to meet a unified set of financial systems linked together electronically in efficient and effective manner to provide agency-wide financial system support.

Management Comments:

Management concurs. RAMIS is being implemented to fully integrate with existing core financial systems and will replace several non-integrated applications.

11. Continue to update and correct FFS to comply with the transaction posting models consistent with standard general ledger (SGL) guidance and policies when recording and classifying transactions. Ensure that changes made to FFS are tested and accepted before they go into live production.

Management Comments:

Management concurs. At the close of FY 2000, FCC hired the developer of FFS to perform a review of the posting model and provide recommendations. All recommendations were received during FY 2001 and have now been acted upon. Certain FCC fund specific changes, unrelated to the FFS review, are needed to improve the financial reporting process. FCC intends to address these changes in FY 2002.

12. Continue to review all frequently used transaction types and transaction codes to ensure that the accounting entries (budgetary and proprietary) are correct.

Management Comments:

Management concurs. FCC is aware of certain fund specific changes that need to be addressed in FY 2002.

13. Record transactions on a timely basis. Proper cut-off should be implemented when preparing interim financial statements.

    Management Comments:

    Management concurs. As the quarterly financial preparation becomes more familiar, management believes cut-off procedures also will become better defined encouraging the timelier recordation of all transactions.

14. Provide focused training, such as FACTS I report preparation to staff responsible for the preparation and review of these reports.

    Management Comments:

    Management concurs. Staff training on FACTS I is planned.

15. Review any official financial reports prior to their issuance to ensure the accuracy and propriety of the data.

    Management Comments:

    Management concurs.

II. Cost Accounting System (Modified Repeat Condition)

FCC's cost accounting system has not been a fundamental part of the financial management system. Although cost reports are generated and distributed to various FCC bureaus and offices, the reliability of these reports is questionable due to the lack of review of the cost allocation methodology and formulas, and the lack of review of proper application of the cost accounting activity codes. The cost accounting system is so inadequate that FCC does not use its reports in preparing its financial statements or analyzing program costs. In addition, we do not believe that the employees from the bureaus and offices outside of FO, who are responsible for financial-related activities, fully understand the importance of properly coding the obligations/expenditures.

As in the prior year, in order to prepare the SNC by program costs, FCC downloaded program costs from FFS into a spreadsheet application. Using the spreadsheets, the indirect costs were initially allocated to the four programs (excluding USF) established in FY 2000 without considering that there were five programs (excluding USF) established in FY 2001 (see finding Section I.C). The indirect costs were allocated proportionately to total direct costs. FCC allocated earned revenue on the same basis used to allocate costs, instead of matching related revenue to costs. SFFAS No. 7, *Statement of Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, however, states that "related revenue should be matched with the cost." Specific earned revenue should be matched against specific program costs in accordance with the program costs and revenue description in the budget submission to Congress.

Additionally, FCC identified its responsibility segments for cost allocation purposes but it did not determine related outputs and calculate the related output costs for its responsibility segments as part of its cost methodology. SFFAS No. 4, *Managerial Cost Accounting Standards*, states that management of each reporting entity should define and establish responsibility segments and that managerial cost accounting should be performed to measure and report the costs of each segment's outputs. Reporting entities should report the full costs of outputs in general purpose financial reports. Specifically, for each segment, managerial cost accounting should:

- Define and accumulate outputs, and if feasible, quantify each type of output in units,
- Accumulate costs and quantitative units of resources consumed in producing the outputs, and
- Assign costs to outputs, and calculate the cost per unit of each type of output.

SFFAS No. 4 states that cost accounting information must rely on consistent and uniform terminology for concepts, practices and techniques to be useful. Reliable information on the cost of the federal programs and activities is crucial for effective management of government operations. In managing Federal government programs, cost information is essential in (1) budgeting and cost control, (2) performance measurement, (3) determining reimbursement and setting fees and prices, (4) program evaluations, and (5) making economic choice decisions.

Although implementation of a cost accounting "system" is not necessarily a prerequisite for compliance with SFFAS No. 4, the agency's cost system or cost finding techniques should meet the required minimum level of cost accounting necessary to accomplish the many objectives associated with planning, decision-making, and reporting. This minimum level, in accordance with SFFAS No. 4 includes:

- Collecting cost information by responsibility segments,
- Measuring the full cost of outputs,
- Developing appropriate costing methodology,
- Providing information for performance measurement,
- Instituting a reporting frequency that is timely and on a regular basis,
- Integrating both managerial cost accounting and general financial accounting utilizing the SGL,
- Providing the appropriate precision of information (i.e., reliable and useful),
- Accommodating management's special cost information needs that may arise due to unusual or special situations or circumstances, and
- Documenting all managerial cost accounting activity, processes, and procedures (should outline applicable activities, provide instructions for procedures and practices followed, list the cost accounts and subsidiary accounts related to the SGL, and contain examples of forms and other documents used).

Management Comments:

Management concurs. The current cost accounting system was designed before FCC faced meeting the requirements of SFFAS No. 4 and was designed to meet budgetary requirements and accounting requirements of the original regulatory fee and auctions program, not cost the accounting requirements of the CFO Act. Realizing the need for a more comprehensive and integrated cost accounting system, FCC developed the functional requirements document for a new cost accounting system. Until a new system is implemented, FCC must rely on cost finding techniques and spreadsheet allocations to perform its cost allocation. Where possible, FCC will adjust its current methodology and review operations to identify associated outputs and move towards compliance with SFFAS No. 4.

Recommendations:

16. Review the propriety of the costing methodology and the matching of earned revenue against costs (costing methodologies).

17. Determine outputs for all responsibility segments as required and calculate the cost per unit of each type of output.

18. Document the costing methodologies and process in a formal policy and procedure manual or handbook. Management should determine which cost objects to define, the costing methodology to use, the type of costs to

include for each reporting or decision making purpose (i.e., full cost), and other items of a similar nature.

Management Comments:

Management concurs with Recommendations 16, 17 and 18. As part of its development of Financial Reporting Policies and Procedures, FCC will review the current net cost methodology. The review will address responsibility segment outputs as well as earned revenue matching. FCC anticipates this effort will not be completed until FY 2003.

19. Evaluate the adequacy of the cost accounting system or other cost-finding techniques (cost systems) in accumulating and allocating costs, matching revenue, accounting, and generating financial information. The cost systems should meet the minimum requirements outlined in the Joint Financial Management Improvement Program (JFMIP) *System Requirements for Managerial Cost Accounting*.

    Management Comments:

    Management concurs. In the short-term, FCC is reviewing its net cost methodology to identify improvements. As a long-term solution, FCC developed the functional requirements document for a new cost accounting system. FCC anticipates this effort will be completed in FY 2003.

20. Ensure that appropriate employees of bureaus and offices fully understand the importance of properly classifying costs and are trained on the proper application of the activity codes.

    Management Comments:

    Management concurs. Additional efforts will be developed to encourage accurate cost reporting.

III. Universal Service Fund Financial Reporting (Modified Repeat Condition)

The USF is a special receipt fund and a special account expenditure fund administered by USAC. USAC provides FCC with specific financial information on a monthly basis for external reporting and financial statement consolidation purposes. The USF financial operations are maintained independently of the

FCC. FCC relies heavily on USAC's financial reporting controls and processes for the USF (see related finding Section I.B).

In July 2001, USAC replaced the company performing its accounting services (including billings and collections) with a new company (the contractor). The transition phase of this major change in accounting operations, however, was not planned well. Our review of the transition procedures and its overall audit impact revealed significant lapses in control activity and an absence of a risk assessment. USAC management did not perform a risk assessment for the transition, by comprehensively identifying risk considered significant between USF and all the parties involved in the transition as required in the GAO *Standards for Internal Control in the Federal Government*. Risk assessment is the identification and analysis of relevant risk associated with achieving an objective. The risk analysis, which should generally include estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how to manage the risk and what actions should be taken, was not considered during the transition. Consequently, as one result, USAC management had difficulty in dealing with problems and the timely resolutions of problems relating to the USF audit that arose after the transition.

There was inadequate documentation of the entire transition process and the responsibilities of all parties involved in the transition were not clearly stated. There was not a clear understanding of the contractor's accounting services role. Based on several discussions and the review of the contractor work during the audit, the contractor believed that its responsibilities were narrowly limited to the billings and collections aspects of the accounting operations while USAC seemed to believe the contract to be a full scope accounting of USF activities, including transaction level journal entries and reconciliation. This confusion resulted in delays of the audit process.

Other significant control weaknesses noted include:

- Lack of reconciliation of subsidiary records to the control spreadsheet;
- Use of ad hoc spreadsheets to account for the USF activities and transactions;
- Untimely recording of the accounting transactions and events;
- Failure to apply dual entry accounting at the transaction level;
- Non-recording of the budgetary journal entries;
- Lack of supervisory review of the financial information; and
- Tests of validity, adequacy, propriety and reasonableness of transition related balances were not adequately documented.

In addition, USAC is currently reviewing the propriety of certain disbursements made to a limited number of service providers participating in the school and libraries program. In FY 2001, USF recovered $1.3 million, which represents 100 percent of the questioned costs, from one provider. USAC needs to strengthen its review procedures to identify any questioned costs prior to making a disbursement by ensuring that adequate supporting documentation is provided and examined prior to approving disbursements.

Management Comments:

Management concurs. FCC, USAC, and NECA worked together and established consistent quarterly reporting requirements in FY 2001 that have continued into FY 2002. For FY 2002, FCC will expand on these requirements and document policies and procedures associated, not only with the frequency and content of information provided, but also with the review of that information.

During FY 2001 USAC conducted a competitive procurement process and entered into new vendor contracts to perform certain financial support services associated with USF administration. USAC's transition to the new vendor did not go as planned due primarily to the timing of the change and the delineation of roles and responsibilities.

Recommendations:

FCC FO continues to be more involved with and has increased its oversight of the USF financial reporting process. Most of the following recommendations, which were not implemented or fully implemented in FY 2001, should be fully implemented in FY 2002 to improve its internal controls.

21. Obtain a clear understanding of the accounting services to be provided by the contractor as described in its contract. Accounting functions determined not to be included in the accounting services contract should be performed by USAC.

    Management Comments:

    Management concurs. USAC has been working closely with its vendor to clearly define the scope of accounting services to be provided and to establish clear expectations and desired outcomes. USAC intends to finalize that process and execute a contract modification. Also, USAC has made organizational and personnel changes to assist in this area. USAC added a Financial Manager of Support Systems to directly supervise and oversee the accounting activities; created, and are actively recruiting to fill, a new Vice President of Finance position; and have added a Director level position to oversee the billing, collection, and disbursement operations.

22. Establish a formal accounting system where dual entry method and budgetary accounting entries, if appropriate, are recorded at the transaction level.

Management Comments:

Management concurs. With respect to budgetary accounting entries, for the reasons stated immediately below in response to item 23, USAC does not plan to implement budgetary accounting at this time, pending a final determination by OGC concerning the Federal nature of the USF.

23. Ensure that generally accepted accounting principles for Federal entities are applied to USF (and TRS) in accordance with OMB Bulletin No. 01-09, section 1.4.

Management Comments:

The auditors recommend that the Commission ensure that generally accepted accounting principles for Federal entities is applied to USF (and TRS) in accordance with OMB Bulletin No. 01-09, section 1.4.

The Commission directed the creation of USAC as a private, not-for-profit corporation with the explicit understanding that USAC would prepare its financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Annually since its creation in 1997, USAC has consulted with the Common Carrier (now Wireline Competition) Bureau staff as required by regulation and has submitted GAAP financial statements to the Commission in compliance with Commission regulations. In addition, over the last three years USAC provided FCC's CFO with the information needed to consolidate the USF into FCC's financial statements. Altering this framework will require modifications to the regulations currently governing USAC's operations.

As a general matter, the recommendation that the USF implement such procedures, controls and systems, as described below would require significant additional resources above and beyond those currently in place. The change in accounting for the USF is not likely to be fully implemented until the OGC makes a determination whether the USF is Federal funds.

24. Perform supervisory review to ensure that reports and financial data are accurate, reasonable and properly classified.

Management Comments:

Management concurs. USAC management currently performs supervisory reviews and has made organizational changes to increase such reviews.

25. Reconcile on a monthly basis the subsidiary/supporting records to the general ledger/control spreadsheets, whichever is currently used.

Management Comments:

Management concurs.

26. Strengthen review procedures to identify any questioned costs prior to making a disbursement by ensuring that adequate supporting documentation is provided and examined prior to approving disbursements.

Management Comments:

USAC continuously seeks to make improvements to operations including improving and strengthening their review procedures. Over the past 2 years there have been a number of reviews and improvements to the original procedures established in 1998. There have been changes to the edits and review procedures and new edits have been added to the automated reviews. Checks of the eligibility of services for which reimbursement is sought have been greatly expanded.

In addition, USAC reports that an integrated invoice review management system is under development. This new system will improve the efficiency of the invoice review process and enable more current and more accurate assessments of the effectiveness of edits and reviews, so that it can continue to target resources at the areas of greatest risk.

USAC is also reviewing the results of beneficiary reviews to identify vulnerabilities in the invoice review process and modify the process to reduce those vulnerabilities.

IV. Loans Receivable and Related Accounts (Repeat Condition)

Since 1999, FCC has been using spreadsheet applications (loan models) developed by a public accounting firm (consultants) hired by FCC to maintain and update these loan models. These loan models were instituted as the loan subsidiary system. FCC's plan to replace these loan models with RAMIS by September 30, 2000 did not materialize according to the schedule. RAMIS was supposed to be a modified off-the-shelf software that would handle accounting for all collections and loan management within FCC and interface with other FCC financial systems. However, as of September 30, 2001, RAMIS was still in testing stages. Consequently, FCC continued to use these loan models in FY 2001 as its loan subsidiary system, with the assistance of the consultants.

In addition, FCC contracted with a loan servicing company for full loan servicing services in FY 2001. The transfer of loan files was on going in late FY 2001 but loan servicing had not commenced at September 30, 2001. FCC intends to use the loan servicing systems and RAMIS as parallel systems in FY 2002.

Although FCC has planned actions to correct the loan servicing related weaknesses noted below, these weaknesses will continue to exist until the new systems are operational and are verified to produce reliable, accurate and timely information.

A. FCC Current Loan Subsidiary Ledger System (Modified Repeat Condition)

Direct Loan System Requirements issued by JFMIP states that a direct loan system must interact with the core financial system to perform fund control checks, initiate or record payments, record the results of other direct loan-related financial transactions, and acknowledge receipt of financial information exchange. It must be able to perform automatic system balancing to ensure that direct loan partners are able to agree on transaction number and dollar values passed, processed and rejected. This automated balancing includes cumulative subsidiary account balancing to the general ledger. It should also be able to support managerial accounting. These internal management information requirements are those required to establish credit management and financial reporting systems that are in compliance with standards provided in OMB Circulars No. A-34, *Instructions on Budget Execution;* A-123, *Management Accountability and Control;* A-127, *Financial Management Systems;* and A-129, *Managing Federal Credit Programs*.

FCC's loan subsidiary ledger system is comprised of the loan models, which are elaborate and complex spreadsheets with configuration settings and information for original and adjusted loan principal, daily earned interest, suspension interest, payment data, and application of payments, among other items. These loan models (1) document the loan terms as determined by FCC's rules and official loan documents; (2) recalculate loan balances for financial statement reporting purposes; and, (3) serve as the cash flow model data for the loan subsidy model calculator.

Our review of the loan models showed that improvements such as tracking of changes to the database and raw collection data were added to enhance the usefulness of the spreadsheets. These improvements, however, will not correct the inherent limitations in a spreadsheet-based application.

- Configuration settings can be easily changed manually. Alteration of relevant configuration settings used in loan balance calculation could produce significantly different results. Once one user alters a setting, it would be difficult for another user to know what changes were made unless the user is notified.
- Separate spreadsheets are generated at year-end to account for the interest receivable earned but not yet billed. Interest receivable earned includes interest receivable on active or defaulted loans after the last billing date but before the next billing date. The loan models were not developed to calculate the interest earned as of a cut-off date if it differed from the billing date.

We also observed that FCC continues to place heavy reliance on the consultants who are substantially responsible for the complete process (i.e., from data entry/download, to adjustments, to review, and to report generation) which may impact FCC's ability to use the loan models when the consultants become unavailable.

Generally, the entire loan review process was manually intensive. Interest receivable is recalculated independently each year based on the status of the loans at year-end. Interest revenue is determined at year-end based on an analysis of the prior and current year receivable, collections and adjustments, instead of recognizing interest as it is earned. The risk of error in this temporary solution (loan models) is higher as a result of the aforementioned conditions.

Management Comments:

Management concurs. Technical security concerns continued to prevent FCC from implementing RAMIS in FY 2001 as planned. The transfer of the portfolio to the new loan service provider is being performed in a phased approach. To meet the obligation to provide sound, reportable, and auditable financial data for FY 2001, FCC extended a contractual engagement with the same firm to continue to provide information until such time as FCC is able to bring RAMIS fully on-line and finalize the outsourcing. Currently, FCC operates both systems and plans to migrate fully to the loan service provider in time for FY 2002 close. FCC has already transferred a substantial portion of its active loan portfolio to an outside loan service provider who is required to provide timely financial data to FCC and ensure proper billing, collection, and reporting of loans.

Management does not believe that current reliance on its consultants is a significant issue. FCC has hired specialized individuals with credit reform knowledge in the budget area and FCC receives training on the model from its consultants on a regular basis. Additionally, there is currently several FCC staff highly proficient in the operation and understanding of the models.

B. General Ledger to the Subsidiary Ledger Balance Reconciliations (Modified Repeat Condition)

A major objective of internal control is to ensure the integrity of the underlying accounting data supporting the financial statements. An important control in this regard is the reconciliation of FCC accounting records. An adequate reconciliation provides the assurance that processed transactions are properly and timely recorded in the accounting records and financial statements, which then allows management the ability to analyze its financial condition and results of operations on a routine basis.

FCC continues to use the loan subsidiary ledger balance to adjust the general ledger balance. Journal entries are made to recognize the effects of the subsidiary records on the general ledger accounts. FCC made significant journal entries such as for those related to loans and auction at interim and year-end. Since transaction level activities are not posted to subsidiary records on a timely basis, the reconciliation of loans and related account balances in the general ledger to the subsidiary records could not be effectively reconciled timely on a monthly basis. To record and track credit reform collections received throughout the year, FCC would initially record the collections to an SGL Account 2402, Unapplied Collections to hold the collections prior to its application of payment. Balances in SGL 2402 were then applied periodically to principal, interest, late fees, etc. based on the application of payments made in the subsidiary records (loan models.)

Management Comments:

Management concurs. While monthly updates of the general ledger are not performed, FCC does perform interim and year end updates of its loan balances as well as cash reconciliations between FFS and the loan subsidiary system. To improve controls for FY 2002, FCC has established a monthly cash reconciliation process between the FFS system and the cash information used for the loan subsidiary system. Ultimately, the conversion to RAMIS and the third party loan service provider will provide FCC with monthly reconciliation capabilities.

Recommendations:

FCC management is ultimately responsible for the accuracy, reliability, propriety, and reasonableness of source data, financial management systems and transactions instituted by the consultants and the loan servicing company.

We recommend the following:

27. Until RAMIS and the loan servicing become operational, and FCC continues to use the loan models, it should:

    a) Develop written policies and procedures for the use and review of the loan models and related output; and

    b) Continue to implement a thorough review and analysis of activities included and excluded in the loan models.

    Management Comments:

    Management concurs.

28. Ensure that the loan subsidiary system being tested (RAMIS) is capable of interfacing with other financial management systems and meets all applicable requirements in the *Direct Loan System Requirements* issued by JFMIP.

Management Comments:

Management concurs noting RAMIS testing is ongoing for all phases of implementation to ensure proper integration. In addition, daily transaction testing is being performed on the interface of transactions between the loan service provider and FFS.

29. Record loan activities promptly to maintain their relevance and value to management in controlling operations and making decisions.

Management Comments:

Management concurs. This is a capability that will be available via RAMIS and the loan service provider. Under the current system, FCC has the capability of reviewing loan balances on a monthly basis and performing analysis through its contractor, if necessary, on a more frequent basis.

30. Reconcile general ledger balances to the subsidiary records consistently on a monthly basis.

Management Comments:

Management concurs. Interim reconciliations were performed during FY 2001. For FY 2002, FCC has established a monthly cash reconciliation to improve control over the application of cash in the loan model. Once RAMIS and the loan servicing systems are fully implemented and integrated with FFS, FCC will establish monthly loan balance reconciliation.

V. Information Technology (IT)

Our review and testing of controls related to IT identified the following conditions noted below:

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

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

OMB Circular No. A-130, *Management of Federal Information Resources*, Appendix III, "Security of Federal Automated Information Resources," as revised in February 1996, established a minimum set of controls for federal agencies, including risk assessments, assigning responsibility for security, security planning, periodic review of security controls, and management authorization of systems to process information.

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

- FCC has not completed the development and implementation of its entity-wide security program plan.
- FCC has only completed risk assessments for seven major applications; ten additional risk assessments need to be completed on its major application systems and its mission-critical general support system.
- FCC has drafted nine security plans for seven of its major application systems and two mission-critical general support systems for certification and accreditation. Eight additional security plans are in development.
- There is no periodic review of security controls over FCC's systems. In addition, FCC has not completed any formal certification and accreditation of its systems. FCC plans to conduct initial security reviews over a two-year period ending in FY 2002. FCC plans to make these reviews part of its internal control review process.
- FCC does not have adequate audit trails facility utilization and review. The Computer Security Officer has not developed and distributed a Commission-wide policy to make mandatory the use of audit trails utilization and review.

Management Comments:

Management concurs. FCC recognizes additional work is needed in the areas of computer security and information assurance. FCC continues to work towards meeting the requirements of OMB Circular No. A-130. To date, security tests and evaluations have been performed on 11 of FCC's 15 major applications, which have yielded a level of certification and accreditation for these applications. Additionally, system security plans have been prepared for both FCC general support systems and all major applications residing on the FCC network.

B. Inadequacies and Inconsistencies in the Mainframe and Network Access Request Process (Repeat Condition)

FCC should consistently apply access request processes stipulated in FCC's Instruction 1479.2 *FCC Computer Security Program* which provides guidelines to grant network access in a consistent fashion. Inadequacies and inconsistencies in the network access request process could have a direct impact in the overall system-wide security program. FCC has addressed this issue but has not established procedures to create a more adequate and consistent manner in which users gain access to the FCC network and major applications.

Management Comments:

Management concurs. FCC is working to ensure a more consistent access request process.

C. Accelerate Efforts to Develop and Test FCC's Contingency Plans (Repeat Condition)

Losing the capability to process and protect information maintained on FCC's computer systems can significantly impact FCC's ability to accomplish its mission to serve the American public. The purpose of service continuity controls is to ensure that, when unexpected events occur, critical operations continue without interruption or are promptly resumed. To achieve this objective, FCC should have (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions, and (2) a plan to recover critical operations should interruptions occur. These plans should consider activities performed at FCC's general support facilities, as well as the activities performed by users of specific applications. To determine whether the disaster recovery plans will work as intended, FCC should establish and periodically test the capability to perform its functions in disaster simulation exercises.

Since this weakness was reported in FY 1999, FY 2001 audit follow-up indicated that FCC has contracted for the services of a contractor to develop and implement during FY 2002 a FCC-wide security plan which includes a continuity of operations plan. The Auctions network has a current contingency plan.

The deficiencies we identified in prior year reports will continue to exist until FCC completes and tests the effectiveness of the security plan being developed. The service continuity controls identified the following deficiencies that could affect FCC's ability to respond to a disruption in business operations as a result of a disaster or other long-term emergency.

- FCC has not formally identified and prioritized all critical data and operations on its major applications and the resources needed to recover them, if there is a major interruption or disaster.
- FCC has not formally identified and prioritized all critical data and operations on its networks and the resources needed to recover them, if there is a major interruption or disaster. In addition, we could not determine whether FCC had established emergency processing priorities that will help manage disaster situations more effectively for the network.
- FCC has not integrated the contingency plans of its data centers, networks and telecommunication facilities in a comprehensive disaster recovery plan.

Management Comments:

Management concurs. Significant effort has been expended by both FCC's Information Technology Center and the Facilities Services Center to ensure development of a comprehensive contingency plan.

Recommendations:

31. Conduct risk assessments for the FCC general support systems and major applications.

    Management Comments:

    Management concurs.

32. Develop and implement security plans for FCC's major application systems and mission-critical general support systems.

    Management Comments:

    Management concurs. System security plans have been completed for both FCC general support systems and all major applications residing on the FCC network.

33. Certify and accredit FCC's major applications and general support systems, based on the security plans developed and implemented.

Management Comments:

Management concurs. FCC contracted for required services to certify and accredit FCC's major applications and general support systems. These reviews are being conducted to ensure compliance with OMB Circulars No. A-123, A-127 and A-130, Appendix III. An expected completion time frame of the reviews is fourth quarter FY 2002.

34. Establish a system to periodically review security controls over FCC's computer systems in accordance with OMB Circular No. A-130, Appendix III.

Management Comments:

Management concurs. Major application and general support system certification and accreditation review processes currently underway will allow for periodic review of these systems, as required by OMB Circular No. A-130, Appendix III.

35. Address inadequacies and inconsistencies in the mainframe and network access request process.

Management Comments:

Management concurs. FCC's Computer Security Officer will work directly with the administrators of the mainframe system, including network access request processing, to ensure adequate controls are implemented and test these processes.

36. Enhance audit trail facility utilization and review.

Management Comments:

Management concurs. FCC's Applications Integrations Group and the Network Development Group have created an audit log server used to preserve activity logs for key FCC servers both inside and outside perimeter firewalls. This server allows for review of activity logs in the event of a situation requiring attention. The logs captured and stored on this server have proven extremely useful during attempted access attempts by unauthorized persons.

37. Develop and implement a FCC-wide security plan as prescribed by OMB Circular No. A-130.

Management Comments:

Management concurs. FCC contracted services to develop and implement FCC-wide security plans for major application systems and mission-critical general support systems. These plans are being developed to ensure compliance with OMB Circular No. A-130, Appendix III.

38. Develop and test contingency plans for FCC's major applications, networks, and telecommunications facilities.

Management Comments:

Management concurs. A significant effort is being made by FCC to ensure the development of a comprehensive contingency plan.

39. Obtain written documentation from FCC's data centers of developed and tested contingency plans and participate in the scheduled tests of the plans.

Management Comments:

Management concurs. FCC's Computer Security Officer will obtain written documentation from its data centers of developed and tested contingency plans and request that FCC be able to participate in the scheduled future tests of the plans. An expected time frame for the completion of these plans is by second quarter FY 2002.

40. Develop a comprehensive contingency plan that integrates the individual plans of its data centers, networks, and telecommunications facilities.

Management Comments:

Management concurs. The contingency plan development team will factor in the integration of the FCC plan with those plans for non-FCC individual support data centers, networks, and telecommunications facilities.

REPORTABLE CONDITIONS

VI. Controls Surrounding Data Used in the Preparation of the Management Discussion and Analysis (MD&A)

Quantitative data used in the performance report and the MD&A section of the financial statements are based on information from the bureaus and offices. Performance Evaluation Records Management (PERM), the office responsible for compiling the performance data, relies heavily on the bureaus and offices to perform the validation process. PERM does not perform substantive verification of data submitted by the bureaus and offices. The bureaus and offices, for their data validation procedures, disclosed that heavy reliance is placed on the respective systems that generate the data submitted to PERM without some kind of substantiation or verification performed. There were no controls in place to ensure that the systems that generate the data and the data generated are accurate, reliable and correct. For instance, our limited tests identified some data included in the September 30, 2001 MD&A were different from the supporting data obtained from the bureaus. Further investigation of the differences disclosed that the bureaus submitted an incorrect report, submitted different reports for the audit and for the MD&A, and could not explain the difference.

In addition, FCC does not have written policies and procedures for the performance measures process. Without formalized policies and procedures, confusion and misunderstandings could occur related to the roles and responsibilities of offices and bureaus in the preparation, evaluation, verification and approval of the strategic plan and related reports submitted to OMB and Congress.

Management Comments:

Management concurs. FCC took steps to validate the data contained in the Quarterly Performance and Results Review (QPRR) that included: requiring that each QPRR be submitted by a transmittal memorandum signed by the bureau/office chief attesting to the accuracy of the data; discussing any noticeable changes in trends or receipts with an individual bureau/office; and verifying timelines and other target dates. Going forward, management plans to hire a senior program analyst whose duties would include the evaluation of selected performance measures.

In FY 2001 FCC coordinated the development of the Annual Performance Plan and the Annual Program Performance Report with all bureaus/offices through formal memoranda and annotated reports. In FY 2002, the FCC has started developing a policies and procedures chapter related to MD&A. The MD&A procedures will be less detailed than those developed for financial operations as many of the requirements are spelled out in the Government Performance and Results Act (GPRA) and OMB Circular No. A-11, Part II.

Recommendations:

41. Formalize the policies and procedures and include, among others, clear definitions of the roles and responsibilities of the offices and bureaus and PERM, including the responsibility for validating the data, and maintaining the records for future verification.

    Management Comments:

    Management concurs. The FCC has begun incorporating information prepared for the audit into a formalized policies and procedures manual.

42. Test the reliability, accuracy and propriety of the data generated from the systems used in accumulating the performance data.

    Management Comments:

    Management concurs. The FCC has incorporated additional staffing needs into its FY 2002 staffing plan that will provide the necessary resources to perform additional data review.

VII. Internal Controls over Certain Accounts Receivable (Modified Repeat Condition)

A. Regulatory Fees

The Omnibus Budget Reconciliation Act of 1993 requires FCC to collect regulatory fees to offset certain costs incurred in regulating its industry. The legislation also gives FCC the authority to review the regulatory fees and adjust the fees to reflect changes in its appropriation from year to year. In addition, it authorizes FCC to charge a late payment penalty and to dismiss applications or revoke licenses for non-payment of the fees, and waive, reduce, or defer payment of a fee for good cause.

As mentioned in the financial reporting weakness, FCC's fee collection database is not linked to its licensing databases, making it difficult for FCC to perform routine automated checks on whether all licensees paid their regulatory fees. Although FCC has initiated corrective actions in the prior year by implementing CORES, a commercial off-the-shelf software that will assign a specific FRN to a licensee to track all transactions related to that license, the FRN needs to be populated in RAMIS, and eventually linked to all the databases in each bureau or office within FCC. As noted, RAMIS was not operational at September 30, 2001.

In FY 2001, FCC is in its second year of implementing manual processes to identify any potential non-paying licensees. This process, however, was labor intensive and could not be performed timely because FCC's organizational structure is decentralized with each bureau (program operation) still maintaining its own licensee database. These databases do not interface with each other or with the financial management system. The delay in implementing RAMIS continued to delay implementation of a system that will allow FCC to better assess its potential revenue gap from non-paying licensees.

B. Application Processing Fees

As authorized under Section 8 of the Communications Act of 1934, as amended, FCC collects application processing fees from applicants applying for certain licenses. Applicants submit a completed FCC application form with a "Remittance Advice" to a specific bank lockbox. The bank stamps the documentation with a received date, assigns a fee control number, deposits the payment with the Department of the Treasury, enters data from application into the fee collection database, and forwards the application documentation, and copies of proof of payments to FO.

Because of FCC's decentralized organizational structure, each bureau is responsible for ensuring that appropriate application fee is collected prior to issuance of a license. As noted in previous reports, adequate documentation from the bureaus did not exist to show that application fees were paid. FCC stated in the prior year that the implementation of RAMIS and CORES would correct this weakness in FY 2001. Unfortunately, RAMIS was not operational in FY 2001.

To mitigate existing weakness, FCC stated that it was working with the bureaus and offices to update its policies and procedures to ensure verification of payment of fees prior to processing an application or granting a right. This process, however, is in progress.

In both the regulatory fee and the application processing fee, there is a high risk of fees required by legislation not recorded and collected. Therefore, the conditions for a potential revenue gap still exist.

Internal controls, as described in OMB Circular No. A-123, covers all aspects of an agency's operations (programmatic, financial, and compliance). Without integrated database systems accessible to all, and with the bureaus maintaining the customer database while FO maintains the collections data, the need for the bureaus (program) and the FO (financial) to coordinate and communicate in establishing and maintaining internal controls is mandatory.

Management Comments:

Management concurs. Once RAMIS is fully operational, each phase of collections, whether application or regulatory fees, will be processed through RAMIS. The FY 2002 regulatory fees will be collected through RAMIS. This will be extremely beneficial for yearly regulatory fees because it will allow management to generate a record of each collection to be used as a basis for bill generation in subsequent years.

Recommendations:

We recommend the following:

43. Ensure that RAMIS and CORES, when fully operational, address and provide solutions to weaknesses noted throughout this report.

    Management Comments:

    Management concurs. FCC believes the systems will resolve the weaknesses.

44. Finalize the documentation and implement standard procedures for bureaus to review payment of fees prior to processing an application. Verify compliance with the internal controls documented in the procedure manual.

    Management Comments:

    Management concurs. OMD is working with the bureaus and offices to update its policies and procedures to ensure verification of payment of fees prior to processing an application or granting a right.

VIII. Supporting Documentation and Controls on Property and Equipment (Modified Repeat Finding)

An agency must establish physical control to secure and safeguard vulnerable assets. Such assets should be periodically counted and compared to control records. Internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. In addition, control activities help ensure that all transactions are completely and accurately recorded.

Our review of property and equipment disclosed several internal control deficiencies as follows:

A. Capitalized Costs Not Distinguished from Non-Capitalized Costs

As in the prior year, while reviewing accounting entries related to acquisition of certain equipment, we noted that the continued use of incorrect budget object codes (BOC) resulted in capitalized costs not distinguished from non-capitalized costs. For example, ADP equipment acquisition was charged to BOC 3120, ADP Equipment, a BOC that is not to be used at the transaction level. FCC's *Financial Coding Handbook* (Fiscal Year 2001 edition) states BOC 3120 is to be used for budget allocation and operational transactions are not to be posted to it. Transactions are to be posted in FFS to either Capitalized ADP Equipment (BOC 3121) or Non-capitalized ADP Equipment (BOC 3122.) As a result, capitalized costs could not be distinguished from non-capitalized costs without a detailed account analysis.

In addition, FCC does not perform a periodic reconciliation of the balances in the capitalized BOC to the amounts capitalized in the USSGL account. This reconciliation will help identify any irregularity in the account balances.

Management Comments:

Management concurs. FCC was aware during FY 2001 that not all capital equipment BOC codes were being coded correctly. FCC took steps at that time to research the issue and in FY 2002 has changed the systems setting that were allowing codes to be posted to summary level BOCs such as 3120. In addition, FCC has tasked a contractor with reviewing all fixed asset task orders for proper BOC coding.

B. Accounting for In-Process and Completed Software

FCC reports software under development as in-process until it is certified for operation and classified as capitalized software subject to depreciation. FCC has been developing several software systems and each software's system development life cycle (SDLC) can span several years and involve multiple purchase orders.

Our tests disclosed that FCC's policy and procedures requiring self-certification from the system owner for software in-process moved to operation is not strictly implemented. This self-certification is the supporting documentation for the software in-service date, which is the basis for reclassifying and for depreciating the software. FCC initially could not provide the self-certification documents. When the documentation was later provided, we noted the following inconsistencies in the eight sample items tested:

- Four forms did not include the signature of the system owner required for certification of in-service date.
- One form did not include the contracting officer's name and signature.
- Seven forms were not certified timely based upon the in-service date. Six of the seven forms were signed on 12/7/01. One was signed on 11/7/01. However, the in-service dates were 9/28/01, 5/26/01, 9/30/01, 7/19/01 and 8/24/01.
- One item was signed by the Contracting Officer Technical Representative and the system owner on 12/7/01, however the in-service date was 9/28/01. This was the only item from our sample that was also included in the Master Property records. The depreciation for this item started 9/30/01.

In addition, current year completed and in-process software transactions are tracked in spreadsheets, not in the property management system. These spreadsheets were complicated, hard to follow, and not reviewed for accuracy and propriety. The risk of error in these spreadsheets is high. In FY 2001, FCC did not record software transactions timely. Software that was moved to operations or already in-service during the year were not reclassified and depreciated until months later or at year-end.

Management Comments:

Management concurs. FY 2001 was the first year in which the in-process spreadsheets were used for the entire year. Initially, delays in recording amounts to FFS occurred because FCC needed to evaluate the best method of moving non-capital BOC's, grouped together as part of an in-process item, into capital equipment. Additional delays occurred as a result of transitioning property recording functions near the end of the year to compensate for the loss of staffing resources. The spreadsheets themselves are complex and have been modified somewhat in FY 2002 for clarity purposes; however, they provide the necessary information needed to track and record the items in FFS. FCC notes that while some errors did occur, reviews of the spreadsheets were performed during the FY to ensure that data collected and included on the sheets was accurate.

Recommendations:

To provide assurance that software is appropriately classified and recorded timely, we recommend:

45. Review capitalized software and software maintenance costs on a periodic basis. Reconcile the amounts in the BOC accounts to the capitalized asset or SGL account monthly.

    Management Comments:

    Management concurs. FCC is using contractor services in FY 2002 to review capital equipment purchases for proper BOC classification prior to the procurement transaction.

46. Ensure that the Planning and Support Group (PSG) effectively review all Information Technology Center (ITC) service related requests for proper BOC entries.

    Management Comments:

    Management concurs. Some expenditures for hardware and software have been erroneously posted to "budget only" object codes (3120 and 3130). To prevent such errors, FCC configured its procurement system so that it no longer accepts those codes for purchase requests.

47. Strictly implement FCC policy requiring that software and systems' owners certify the transfer of a software system from development to operations (in-service) in order for the proper classification and proper depreciation of asset.

Management Comments:

Management concurs. FCC is already implementing policy as stated in its Property Management Policies and Procedures, that software and systems' owners certify the transfer of a software system from development to operations.

48. Ensure that in-service certification documents are prepared, signed and dated by the appropriate parties at the time the software is moved from in-process to operations.

Management Comments:

Management concurs. FCC ensures that the self-certification of software in process or operational status is prepared, signed, and dated by the appropriate parties on a quarterly basis.

49. Review the effectiveness of current spreadsheets used in tracking completed and in-service software.

Management Comments:

Management concurs. FCC will continue to evaluate the in-process software tracking spreadsheet to identify and implement improvements.

50. Perform quality control reviews of the software spreadsheets or its successor to ensure that data are accurate, reliable, proper and correct.

Management Comments:

Management concurs. In conjunction with the review of BOC's on capital purchases, the FCC will also examine additional review procedures for verifying the completeness of FFS.

IX. Controls over Accounts Receivable and Accounts Payable Subsidiary Records (Modified Repeat Condition)

FCC does not perform an adequate review of its subsidiary ledgers - Open Billings Detailed Report (OBDR) and the Open Accounts Payable Report (OAPR) - on a monthly basis to determine accuracy, reasonableness, and proper classification of each outstanding transaction in the report. Numerous transactions are not posted to subsidiary ledgers timely or not posted at all. These transactions are repeatedly shown as reconciling items and carried each month in its monthly reconciliation. For instance, an account receivable for $24 million was collected in July 1999; however, the receivable was still included in the September 30, 2001 OBDR. The amount was removed when a revised OBDR was received for September 30, 2001. Also, some FY 1999 and FY 2000 revenue accruals were posted to the subsidiary records and remained in the September 30, 2001 OBDR.

Our analysis of the OAPR this year disclosed that the weaknesses noted in FY 2000 had not been corrected. Vendors' accounts beginning with a Z code with a total of approximately $15 million debit balances noted in FY 2000 were still shown in the OAPR at September 30, 2001. A "Z" code is a vendor code in FFS that starts with the prefix Z. FCC determined the debit balances were substantially due to auction up-front payments refunded to losing bidders from prior years activity dating back to at least 1996. When refunds were made, FCC debited accounts payable even though an accounts payable was not originally established.

In addition, we noted that numerous outstanding balances in the OAPR continue to be identified by a journal voucher (JV), not by a vendor. Although FCC stated that the use of JV was minimized in FY 2001, we noted that the number of journal vouchers prepared to correct balances increased from 38 in FY 2000 to 42 in FY 2001; most of these vouchers were not matched against a specific vendor balances.

Standards for internal controls state that transactions are to be properly classified. Account balances should be analyzed on a periodic basis to ensure their propriety, accuracy, and timely detection of errors.

Management Comments:

Management concurs. FCC established monthly reconciliations for both accounts payable and accounts receivable in response to prior year audit findings. FCC did clear a number of reconciling items from both the accounts receivable and accounts payable reconciliations but was unable to clear all items prior to year-end. FCC will continue to clear outstanding items in FY 2002 and, in the case of the OAPR, is re-designing the report to add capabilities that the original report was not designed to provide. FCC notes that the $15 million debit is offset by a $15 million credit which results in a net balance of zero.

Recommendations:

51. Correct old outstanding transactions still in the OBDR and OAPR.

    Management Comments:

    Management concurs. The systems enhancements made to the OAPR report in FY 2002 will clear old transactions.

52. Minimize the use of journal vouchers. If a journal voucher has to be prepared, ensure that the appropriate subsidiary ledger is adjusted for the effect of the journal voucher.
    Management Comments:

    Management concurs. Wherever possible FCC will use transaction codes in order to establish and liquidate balances.

53. Consider using a sub-SGL account (i.e., SGL 2110.1) to account for auction-related payables. This will allow management to perform an effective and efficient review of the accounts payable and the auction-related transactions.

    Management Comments:

    Management believes that the changes made in FY 2001 and changes being made in FY 2002 will eliminate the need for a sub-account. However management will continue to look for methods to improve the usefulness of our reconciliations.

X. Compliance with Certain Aspects of the Clinger-Cohen Act of 1996

The Clinger-Cohen Act of 1996 requires federal agencies to focus on the results they are achieving through IT investments. Specifically, this act introduces more rigor and structure into how agencies approach the selection and management of IT projects. Among other things, the head of each agency is required to implement a process for maximizing the value and assessing and managing the risks of the agency's IT acquisitions.

During our review, we noted that the FCC did not comply with the requirements of the Clinger-Cohen Act in its development and implementation of the RAMIS application. FCC did not follow its directive on systems development standards for RAMIS prior and during its critical development stages. The development efforts began in July 1998, and FCC systems development and implementation standards were only completed in the last quarter of calendar year 2000.

The FCC's system development methodology, therefore, was not the methodology used to manage the implementation of RAMIS. As a result of FCC not formalizing its system development and implementation plan and not adequately planning this IT investment, we noted the following weaknesses:

- Ineffective hardware planning. FCC did not have a documented plan for the migration strategy that would include: disaster recovery, proposed data center location changes on strategy, telecommunications, and other logistical support.
- Ineffective human resource or staff planning. FCC did not commit adequate resources to manage the implementation of the RAMIS application.
- Inadequate IT participation on the RAMIS development. ITC did not fully participate in the development and implementation of the RAMIS application. ITC did not provide guidance to the project owner on using FCC's SDLC standards to manage project activities and product. Thus ITC did not involve itself at the various stages of the RAMIS project as required by FCC's SDLC standards.
- Project management tools (time, function, budget) were not utilized. The RAMIS implementation plan report indicated that the project met every milestone target date without exception. However, as of September 2001, the project has still not been implemented and has not met the final deadline for full implementation. The report contradicts the actual progress of RAMIS implementation and provides no information to management of delays and slippage that have occurred.
- Unfamiliarity with the operating environment and hardware. ITC is not familiar with the database administration software being used in the development of RAMIS. The RAMIS project has not provided for training of ITC personnel to manage the hardware when RAMIS is finally moved into the production environment.

The RAMIS project was supposed to have been completed by September 30, 2000 in accordance with the contract. However, as of September 30, 2001, only four of the seven modules were completed and parallel testing of these four modules is still in progress.

FCC did not establish and implement a rigorous methodology and structure for the management of the RAMIS development and implementation. This resulted in:

- Inadequate cost/benefits analysis of the investment;
- No evidence of quantifiable measurements for determining the net benefits and risks of the investment; and
- Inadequate and untimely monitoring of information regarding the progress of an investment, including lack of an approved project review schedule for the review of RAMIS implementation at key milestones in the lifecycle of the project as the project moves from initial design, testing through full implementation and as the dollar amounts that are expended increases.

Management Comments:

Management concurs. The progress of RAMIS development would have been improved if FCC's SDLC methodology had been in place when RAMIS development began.

Recommendations:

54. Document and implement a migration strategy for the RAMIS application.

    Management Comments:

    Management concurs. As part of the SDLC, the current implementation strategy will be revised to more clearly document the implementation and integration strategy for RAMIS.

55. Commit adequate resources to the management of the RAMIS project.

    Management Comments:

    Management concurs. A vacant position on the RAMIS team was advertised in March 2002 and management plans to have a replacement on board by June 2002. Additional contractor staff has been added for the implementation of the final modules.

56. Adopt FCC's SDLC methodology for IT systems to the RAMIS project.

Management Comments:

Management concurs. Management will apply FCC's SDLC methodology to RAMIS.

57. ITC should provide guidance to FCC on major IT investment initiatives.

Management Comments:

Management concurs. ITC does provide guidance to FCC on major IT investment initiatives. The Chief Information Officer participates in FCC's budget formulation and execution for IT investments. ITC is preparing an IT Capital Planning and Investment Control Process, which will document the procedures for providing this guidance.

58. Ensure that RAMIS project management reports are accurate, and provide decision makers with timely information.

Management Comments:

Management concurs. Management reports will be accurate and timely.

59. Ensure that major IT investments such as RAMIS, are subject to periodic review at key milestone dates.

Management Comments:

Management concurs. Major IT investments such as RAMIS are subject to periodic review. The Managing Director (MD) and the CFO meet biweekly with the RAMIS project team to review progress. Also, the MD and the Chief Information Officer meet biweekly to review all sensitive major IT projects and quarterly status reports are received on the remaining systems.

XI. OMB Circulars No. A-127 and A-130 Reviews (Repeat Condition)

FCC has recently identified its major financial applications and general support systems, and established a timetable for meeting the requirements of OMB Circulars No. A-127 and A-130 review of these applications. FCC plans to begin conducting OMB Circulars No. A-127 and A-130 reviews in FY 2002. Until these reviews are performed and completed, FCC cannot determine compliance with these Circulars to include in its annual Federal Managers' Financial Integrity

Act (FMFIA) report and to ensure substantial compliance with Federal Financial Management Improvement Act.

Management Comments:

Management concurs. FCC has not completed all of the reviews for its major initiatives; however, a program for performing OMB Circular reviews has been in place for three years and continues to be supported through IT funding initiatives and contractor services for all general support systems and applications declared to be major. Eleven such reviews are completed and all remaining reviews are scheduled and slated for completion by the end of FY 2002.

For FY 2001, the results of completed OMB Circular reviews were submitted as part of Section 4 reporting on the FCC's annual FMFIA report. This effort was coordinated between the ITC Computer Security Office and the MD's PERM.

Recommendations:

60. Institute a program for conducting periodic reviews in accordance with OMB Circulars No. A-127 and A-130.

    Management Comments:

    Management concurs. A program is in place to complete the required reviews by the close of FY 2002.

61. Include the results of OMB Circulars No. A-127 and A-130 reviews as part of Section 4 reporting in FCC's annual FMFIA report.

    Management Comments:

    Management concurs. The results of completed reviews were included for FY 2001 and will continue to be included for FY 2002 reporting.

****

In addition to the material weaknesses and reportable conditions described above, we noted certain matters involving internal control and its operation that we reported to the management of FCC in a separate letter dated February 22, 2002.

This report is intended solely for the information and use of the management of FCC, FCC Office of Inspector General, OMB, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties. We caution that misstatements, losses, and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.

Clifton Gunderson LLP

Calverton, Maryland
February 22, 2002

SECTION III

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Compliance with Laws and Regulations

To the Inspector General of the
Federal Communications Commission

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2001 and have issued our report thereon dual dated February 22, 2002 and March 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

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

Chief Financial Officers Act of 1990 (CFO Act)

The Government Management Reform Act of 1994 (GMRA) amended the requirements of the CFO Act by requiring, among other things, the annual preparation and audit of organization-wide financial statements of 24 executive departments and agencies. Although FCC is not listed in OMB Bulletin No. 01-02 as one of the agencies required to comply with these requirements, management has voluntarily elected compliance and as such is being evaluated accordingly.

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

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

- Directs, manages, and provides policy guidance and oversight of all agency financial management personnel, activities, and operations;

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

FCC does not meet the above criteria as explained in more detail in our Report on Internal Control (IC Report), Sections I through V. The key items we identified include:

- FCC was not able to prepare reliable and timely financial management information efficiently for managing current operations.

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

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

- Although the majority were drafted, written policies and procedures on financial management personnel, accounting events, activities and operations have not been completed or have not been fully implemented.

- Direction, policy guidance and oversight of Universal Service Fund (USF) financial operations are inadequate.

In addition, FCC's internal control directive, FCCINST 1102.3, *Internal and Management Controls,* assigns management responsibility and procedures for establishing, maintaining, evaluating, and reporting on internal controls. This directive expired in May 2000, leaving no directive in effect for fiscal year (FY) 2001.

Debt Collection Improvement Act (DCIA) of 1996

DCIA requires agencies to notify Department of the Treasury of all debts that are delinquent for more than 180 days for offset and for referral to Department of the Treasury for cross-servicing debt collection. FCC is also responsible for reporting receivables due from the public for administrative receivables of the USF and Telecommunication Relay Service Fund (TRS.) In FCC's Treasury Report on Receivables (TROR) for administrative receivables submitted to Department of the Treasury at September 30, 2001, it reported $10 million as the amount eligible for referral to Department of the Treasury for offset, however, only $76 thousand of the $10 million was referred to Department of the Treasury for cross-servicing.

In addition, gross administrative receivable balances as of September 30, 2001 reported on the TROR could not be adequately reconciled to the final balances reported on the financial statements. There was at least a $186 million difference between the two reports.

Government Performance and Results Act of 1993 (GPRA)

The GPRA requires federal agencies to submit to OMB and Congress the following:

- A strategic plan (SP) for program activities, which sets out a course of action and accomplishment over the long term;

- An annual performance plan (APP) that sets annual goals with measurable target levels of performance; and

- An annual program performance report (APPR) that compares actual performance to the annual goals.

FCC did not fully comply with the critical key components of the GPRA as described below:

(a) The SP dated September 2000 (the most recent plan) lacked three out of the six significant elements required by GPRA. The SP did not specifically address:

- The skills and technologies required to achieve the general goals and objectives;
- The human, capital, information, and other resources required to achieve the general goals; and
- The means and strategies section.

(b) The APP for FY 2001 did not describe the means to be used to verify and validate measured values.

(c) The APPR for FY 2000 (latest report available) did not include three significant elements required by GPRA as follows:

- The APPR did not include a summary of findings for program evaluations completed during the fiscal year covered by the APPR.
- The APPR did not describe the use nor assesses the effectiveness of achieving the performance goals.
- The APPR did not explain and describe where a performance goal was not met. Also, there was no description of plans and schedules to meet an unmet goal in the future, or recommended action if infeasible to meet the unmet goals.

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

Federal Financial Management Improvement Act of 1996

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

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

<u>Federal Financial Management Systems</u>

- Agency-wide Financial Information Classification Structure – As explained in detail in the IC Report, Section I.F., FCC's core financial system, Federal Financial System, (FFS) has not been consistent with the standard general ledger. FCC is in the process of implementing recommendations from the FFS' developer to enhance FFS compliance with the USSGL and to facilitate use of external reporting capabilities of FFS. Delay in full implementation of these recommendations is due to the length of time needed to identify all inconsistencies and to test the modifications.

  In addition, FCC's reporting entity's financial information classification structure to track program expenditures was not modified from four programs in FY 2000 to five programs in FY 2001. See IC Report, Section I.C.

- Integrated Financial Management Systems - FFS and feeder systems (direct loan systems and spreadsheets, cost systems, property management system, license database systems, collection systems, certain accounts receivable systems, procurement systems and various spreadsheets) are not integrated or electronically interfaced. A user is not able to have one view into systems such that, at whatever level the individual is using the system, he or she can obtain the information needed efficiently and effectively through electronic means. See IC Report, Section I.E.

  FCC has an on-going effort during the last two years to strengthen its financial management systems. FCC management expected to achieve some level of financial management systems' integration by implementing the Revenue Accounting and Management Information System (RAMIS) by September 30,

2000. RAMIS would supposedly integrate, among others, the direct loan system, fee billing and collection systems, fines and forfeitures, licensees' databases, interface with FFS and include a module for cost accounting system. FCC, however, did not meet this expectation, as RAMIS was not operational at September 30, 2001. As of September 30, 2001, four of the seven modules were completed and parallel testing of these four modules remains in progress. The primary reason for noncompliance is FCC's failure to meet its timetable and the length of time needed to implement several financial management systems' enhancements developed over the last two years.

- Financial Reporting – FCC was not able to provide timely and reliable financial information for managing current government operations. The primary reason of the non-compliance is that significant financial activities are not recorded, prepared and analyzed timely. See IC Report, Section I.

- Security – During our review of the information technology controls, we identified several weaknesses, which are collectively considered a material weakness and are described in more detail in our IC Report, Section V. The weaknesses include noncompliance with OMB Circular A-130's, *Management of Federal Information Resources,* requirement for a comprehensive security plan, inadequacies and inconsistencies in the mainframe and network access request process, and lack of a fully developed and tested contingency plan. Since this non-compliance was identified in FY 1999, FCC has started the process of instituting corrective actions. For example, FCC obtained the services of a contractor to develop and implement a FCC-wide security plan, which include a continuity of operations plan, in FY 2002. The primary reason for this noncompliance is the length of time needed to implement the corrective actions and the availability of funds.

Federal Accounting Standards

Due to lack of an adequate cost accounting system, FCC was not able to produce managerial cost information consistent with standards in the Statements of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards,* as described in our IC Report, Section II.

Standard General Ledger (SGL) at the Transaction Level

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

Also, as discussed in Section III of the IC Report, USF transactions, which were transactions from feeder systems summarized in a trial balance for consolidation in the FCC financial statements, were not recorded in a manner consistent with the account definitions, posting models/attributes specified in the SGL. The feeder system from USF or the FCC did not record budgetary entries for the USF.

The FCC Managing Director and the CFO have been assigned the responsibility of ensuring the substantial compliance with the FFMIA. We discussed the actions taken by the agency and our recommendations to strengthen FCC's financial management systems are outlined in our IC Report. FCC management plans to have some of the corrective actions started or implemented by FY 2002.

Management Comments:

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

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Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

Clifton Gunderson LLP

Calverton, Maryland
February 22, 2002

SECTION IV

FEDERAL COMMUNICATIONS COMMISSION
FISCAL YEAR 2001 ANNUAL FINANCIAL REPORT

Federal Communications Commission

Fiscal Year 2001 Annual Financial Report

(October 1, 2000 – September 30, 2001)

Table of Contents

MANAGEMENT'S DISCUSSION & ANALYSIS

Overview of the FCC

The Federal Communications Commission (FCC or Commission) is an independent United States Government regulatory agency, directly responsible to Congress. The FCC was established by the Communications Act of 1934 (the Act) and is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The FCC's Headquarters is located in Washington, DC, and it has field locations throughout the Nation. The FCC's jurisdiction covers the 50 states, the District of Columbia, and U.S. possessions.

The FCC is directed by five Commissioners, appointed by the President and confirmed by the Senate, for 5-year terms, except when filling an unexpired term. The President designates one of the Commissioners to serve as Chairman. Only three Commissioners may be members of the same political party. Commissioners cannot have a financial interest in any FCC-related business.

This document contains information about the FCC's principal financial statements for fiscal year (FY) 2001, including a consolidated balance sheet, a statement of net cost, a statement of changes in net position, a statement of budgetary resources, a statement of financing, a statement of custodial activity, and notes to the consolidated financial statements. Additionally, it presents the FCC's mission and organizational structure; performance information; details on its systems; controls and legal compliance; and possible future impacts on the Commission. It serves as a guide to key FCC initiatives and activities taking place during FY 2001, or planned for future years, that demonstrate the breadth of the Commission's work.

FCC's Mission

> ***"Today, the Commission's primary mission is to promote a fully competitive marketplace as well as access for all Americans to communications services."***
>
> *Chairman Michael K. Powell*
> *Testimony on Appropriations, June 28, 2001*

The fundamental mission of the FCC is to implement the Act, as amended, and the Telecommunications Act of 1996 (the 1996 Act) in a manner that promotes competition, innovation, and deregulation in the communications industry and the availability of high quality communications services for all Americans.

FCC's Vision and Business Plan

The FCC's mission is to promote competition in communications, protect consumers, and support access for every American to existing and advanced communications services. To do this, the FCC will write and execute a new business plan built along the following four dimensions.[1]

- ✓ a clear substantive policy vision, consistent with the various communications statutes and rules, that guides FCC deliberations;
- ✓ a pointed emphasis on management that builds on a strong team, produces a cohesive and efficient operation, and leads to clear and timely decisions;
- ✓ an extensive training and development program to ensure that the FCC possesses independent technical and economic expertise; and
- ✓ an organizational restructuring to align the FCC with the realities of a dynamic and converging marketplace.[2]

The FCC will strive to use taxpayers' funds constructively to improve the Commission's services through a comprehensive retooling of the mission in concert with the FCC's current legislative mandate. The United States has a proud legacy in the area of communication services. This Nation has built the finest voice communication system in the world, as well as top-notch mass media delivery systems in the form of radio, television, and cable. With the advancements that have been made in the communications industry, the FCC has begun encouraging deployment of new advanced architectures and technologies of services like broadband. Government policy will need to foster the migration towards the digital broadband future. The Commission's policy direction will focus on this migration with several directional guideposts[3] including efforts to:

- ✓ facilitate timely and efficient deployment of broadband infrastructure;
- ✓ creatively pursue universal service goals of ubiquity and affordability in deployment;
- ✓ redirect focus onto innovation and investment;
- ✓ harness competition and market forces;
- ✓ rationalize and harmonize regulations across industry segments, where appropriate; and
- ✓ shift from expanding permissive regulations to effective enforcement of necessary ones.

FCC's Organizational Structure

The FCC Chairman leads the Commission and oversees the activities of the Commissioners. The Chairman delegates management and administrative responsibility to the Managing Director. The Commissioners supervise all FCC activities, delegating responsibilities to staff units and bureaus. The Commission staff is organized by function into bureaus and staff offices.[4] There are seven operating bureaus: Cable Services, Common Carrier, Consumer Information, Enforcement, International, Mass Media, and Wireless Telecommunications. These bureaus are responsible for developing and implementing regulatory programs, processing applications for licenses or other

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[1] Testimony before the Subcommittee on Commerce, Justice, State and the Judiciary of the Senate Committee on Appropriations by FCC Chairman Michael K. Powell on June 28, 2001.
[2] The organizational restructuring will begin in FY 2002.
[3] Testimony before the Subcommittee on Appropriations by Chairman Powell on June 28, 2001.
[4] The organizational chart for the FCC, as of September 30, 2001, can be found on page 6 of this report.

filings, analyzing complaints, conducting investigations, and taking part in FCC hearings. There are also staff offices: Administrative Law Judges, Communications Business Opportunities, Engineering and Technology, General Counsel, Inspector General, Legislative and Intergovernmental Affairs, Managing Director, Media Relations, Plans and Policy, and Workplace Diversity. Even though the bureaus and offices have individual functions, they regularly join forces and share expertise in addressing Commission issues.

FCC Bureaus

Cable Services Bureau (CSB) – serves as the single point-of-contact for consumers, community officials, and the industry for cable-related issues.

Common Carrier Bureau (CCB) – is responsible for rules and policies concerning telephone companies that provide interstate, and, under certain circumstances, intrastate telecommunications services to the public through the use of wire-based transmission facilities (i.e., corded/cordless telephones) and radio communications.

Consumer Information Bureau (CIB) – communicates information to the public regarding Commission policies, programs, and activities. CIB handles public inquiries and informal consumer complaints. It is also charged with overseeing disability mandates.

Enforcement Bureau (EB) – enforces the Communications Act, as well as the Commission's rules, orders, and authorizations. It consolidates enforcement functions from other areas of the FCC.

International Bureau (IB) – represents the Commission in satellite and international matters (such as rates, standards, and development issues).

Mass Media Bureau (MMB) – regulates AM/FM radio and television broadcast stations, as well as Multipoint Distribution (i.e., cable and satellite) and Instructional Television Fixed Services. This bureau also assigns frequencies and call letters to stations and designates operating power times.

Wireless Telecommunications Bureau (WTB) – oversees all domestic wireless telecommunications programs (except satellite), including cellular and PCS phones, pagers and two-way radios. This bureau also regulates the use of radio spectrum to fulfill the communications needs of businesses, local and state governments, public safety service providers, aircraft and ship operators, and individuals.

FCC Staff Offices

Office of Administrative Law Judges (OALJ) – presides over hearings and issues Initial Decisions.

Office of Communications Business Opportunities (OCBO) – provides advice to the Commission on issues and policies concerning opportunities for ownership and contracting by small, minority, and women-owned communications businesses.

Office of Engineering and Technology (OET) – allocates spectrum for non-governmental use and provides expert advice on technical issues before the Commission. OET makes recommendations on how spectrum should be allocated, and establishes technical standards for spectrum users.

Office of the General Counsel (OGC) – serves as chief legal advisor to the Commission and its various bureaus and offices. OGC advises the Commission on fostering competition and promoting deregulation in a competitive environment.

Office of Inspector General (OIG) – conducts and supervises audits and investigations relating to the operations of the Commission. This office recommends policies for activities designed to promote economy, efficiency, and effectiveness, as well as to prevent and detect fraud and abuse.

Office of Legislative and Intergovernmental Affairs (OLIA) – is the Commission's main point of contact with Congress and other governmental entities.

Office of the Managing Director (OMD) – functions as a chief operating official, serving under the direction and supervision of the FCC's Chairman. Provides direction to the bureaus and staff offices in management and administrative matters.

Office of Media Relations (OMR) – informs the news media of FCC decisions and serves as the Commission's main point of contact with the media. This office also manages the FCC's website.

Office of Plans and Policy (OPP) – serves as the Commission's chief economic policy advisor, analyzing issues and developing long-term policy planning.

Office of Workplace Diversity (OWD) – advises the Commission on all issues related to workforce diversity, affirmative recruitment, and equal employment opportunity.

The Universal Service Fund

Universal Service Fund (USF) – a significant program of the FCC, as designated in the U.S. Budget, USF consists of five elements, four of which are the universal service support mechanisms and the fifth being the Telecommunications Relay Service (TRS) Fund. The universal service support mechanisms were established pursuant to Section 254 of the Act, as amended. The TRS Fund was established pursuant to Section 225 of the Act, as amended. The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable persons with hearing or speech disabilities to use wireline or wireless telecommunications services.

The universal service support mechanisms are funded through mandatory contributions from all U.S. telecommunications companies, including local and long distance phone companies, wireless and paging companies, and payphone providers. There are four universal service support mechanisms: high cost, low income, rural health care, and schools and libraries. The High Cost Support Mechanism provides support to telephone companies that serve high cost areas. The Low Income Support Mechanism assists low-income consumers by helping to pay for service connection charges as well as monthly charges. The Rural Health Care Support Mechanism allows rural health care providers to pay the same for telecommunications services as their urban counterparts. The Schools and Libraries Support Mechanism provides discounted Internet access and telecommunications services to schools and libraries. While consumers benefit from the support mechanisms, only service providers may receive money directly from the support mechanisms, which defray the cost of delivering services to customers.

Universal Service Administrative Company (USAC) – administers the USF under the direction of the FCC. On July 13, 2001, the FCC authorized USAC to outsource the USF accounting functions for billing and collections through the competitive procurement process to a private contractor. Unlike the FCC's programs, USF programs operate on a different fiscal year, which commences January 1 and ends December 31.

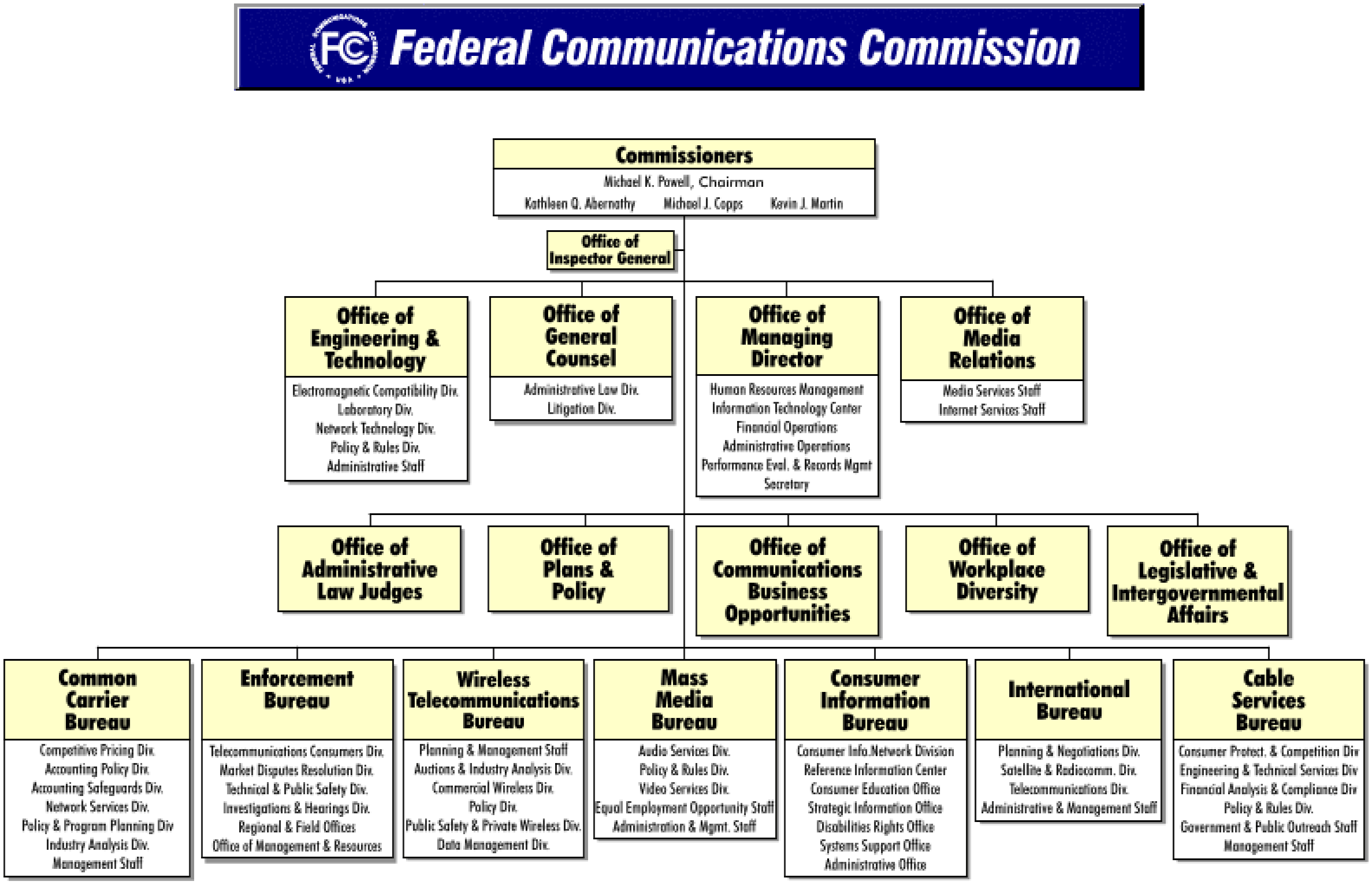
National Exchange Carriers Association (NECA) – administers the TRS Fund under the direction of the FCC.

Other FCC Components

North American Numbering Plan (NANP) – In February 1996, Congress passed the 1996 Act amending the Act. Section 251(e)(1) of the Act requires the Commission to create and designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis. The goals of the plan are to provide a structure for number administration that is impartial and pro-competitive, maintain and foster an integrated approach to number administration throughout North America, and correct the deficiencies of the current industry-led efforts in number administration, while maintaining the positive aspects of those effects. The administrator and billing and collection agent serve for terms of years and are required to be non-governmental entities under FCC regulations (47 C.F.R. §. 52.12). Cost recovery and allocation measures are provided for in FCC regulations. However, revenues to support the program are collected by the administrator or the billing and collection agent (47 C.F.R. §. 52.16; 52.17)

Local Number Portability (LNP) – The FCC established, under the 1996 Act, and as defined in 47 C.F.R. § 52.21. Additionally, the Local Number Portability Administrator (LNPA) was also established. It is an independent, non-government entity, and is not aligned with any particular telecommunications industry segment. The LNPA administers the number portability which means the ability of users of telecommunication services to retain, at the same location, existing telecommunications numbers without impairment of quality, reliability, or convenience when switching from one telecommunications carrier to another. The administrator and billing and collection agent serve for terms of years and are required to be non-governmental entities under FCC regulations (47 C.F.R. §. 52.21h). Cost recovery and allocation measures are provided for in FCC regulations. However, revenues to support the program are collected by the administrator or the billing and collection agent (47 C.F.R. §. 52.32; 52.33).

The organizational chart for the FCC, as of September 30, 2001, is included on the following page.



* As of September 30, 2001, there was one vacant Commissioners Office.

Facilitating the Communications Revolution – The FCC's Implementation of the Government Performance and Results Act

> ***"[We have]…a unique opportunity to take stock and assess our regulatory framework, and to develop guiding principles that will encourage economic growth in the communications sector and maximize consumer welfare."***
>
> *Chairman Michael K. Powell*
> *Testimony on Appropriations, June 28, 2001*

I. Overview: With rapid changes in the technology sectors, the FCC's strategic planning process is an evolving one. However, the fundamental mission of the FCC remains unchanged – to implement the Act, as amended, and the 1996 Act, in a manner that promotes competition, innovation, and deregulation in the communications industry and the availability of high quality communications services to all Americans. In order to achieve these objectives in this time of great innovation in the communications industry, the FCC must strive to remain on the cutting edge of changes in technology, economics, and the law.

To ensure the FCC is making strides in fulfilling its mission, the Commission developed strategic goals and objectives as well as performance measures, in accordance with the Government Performance and Results Act of 1993 (GPRA). Performance measures included in this overview were drawn from the FCC's Annual Performance Plan as submitted to Congress with the FCC's FY 2002 budget request as well as the FY 2000 Annual Program Performance Report (March 2001), which assesses FY 2000 performance efforts and highlights the goals for FYs 2001 and 2002. These measures are consistent with the FCC's Strategic Plan. The performance measures selected for this Annual Financial Report (five measures from the FY 2000 Annual Financial Report and three new measures) were based on links to the Commission's most significant activities.

II. Goals and Objectives: Consistent with the objectives of the 1996 Act, the Commission has sought to rely increasingly on market forces to promote competition to foster the availability of high quality communications services to consumers at reasonable prices. The FCC is challenged to continue to find ways to foster competitive entry into established markets, while encouraging the development of open, competitive markets for new and innovative technological services. The FCC must strive, through the enforcement of policies aimed at encouraging competition, to ensure that its rules are adhered to fully, and to continue to monitor business practices and their impact on consumers. The FCC must also keep focused on an ever increasing global communications marketplace, and the challenges that globalization poses for spectrum sharing and maintaining open international markets. The advent of Internet-based and other new technology-driven communications services will impact the communications industry, eroding traditional regulatory distinctions between the various sectors of the communications industry. As a result, the FCC will need to integrate the changing character of the industry into its core functions: 1) licensing; 2) promotion of competitive markets; 3) enforcement; 4) consumer information; and 5) spectrum management.[5] The FCC's goals and objectives, listed in the chart below, are aligned with

[5] FCC's FY 2002 Budget Estimates to Congress, Annual Performance Plan, pages 1-2.

the five core functions as well as the FCC's Strategic Plan and Annual Performance Plan. Eight performance measures related to the strategic objectives in italics are highlighted in this report in the order listed, and detailed further in Part VI of this section.

Strategic Goals and Objectives from the Annual Program Performance Report[6]

1. **Licensing: Create A More Efficient, Effective and Responsive Agency**
   - ✔ *Automate agency processes*. (1)
   - ✔ *Streamline Commission's processes and procedures*. (2 and 3)
2. **Competition:**
   - **A. Promote Competition In All Communications Markets**
     - ✔ *Eliminate barriers to entry in domestic markets*. (4)
     - ✔ *Deregulate where appropriate to promote competition*. (5)
     - ✔ Promote competition in international communications markets.
   - **B. Promote Opportunities For All Americans To Benefit From The Communications Revolution**
     - ✔ *Promote access for all Americans to communications services*. (6)
     - ✔ Promote consumer education and information.
3. **Enforcement: Promote Competition In All Communications Markets**
   - ✔ *Enforce the rules so businesses compete fairly*. (7)
4. **Consumer Information Services:**
   - **A. Create A More Efficient, Effective and Responsive Agency**
     - ✔ Provide improved access to all Commission information.
   - **B. Promote Opportunities For All Americans To Benefit From The Communications Revolution**
     - ✔ Promote access for all Americans to communications services.
5. **Spectrum Management: Manage The Electromagnetic Spectrum In The Public Interest**
   - ✔ Promote more efficient use of spectrum.
   - ✔ *Foster the increased availability of spectrum*. (8)

The table on the following page reflects the budgetary resources dedicated to the five core functions. The data includes both direct organizational full time equivalent personnel (FTE) and operating cost, as well as other staff office support (FTE and operating cost) necessary to provide policy direction, program development, legal services, executive direction and other services associated with each of the individual functions. In the FY 2000 Annual Financial Report, the FCC first tracked its performance measures according to the five core areas noted above. However, the cost accounting system has not yet been updated to reflect the addition of spectrum management as an additional function. As a result, the FCC Budget Office developed the FY 2001 cost-by-activity and FTE estimates in the following table based on the same percentages for allocation of funds used in the FY 2001 Congressional Budget submission. The FCC has developed the functional requirements document for a new cost accounting system. The new Managerial Cost Accounting System (MCAS) will provide a financial management system that supports the partnership between program and financial managers, assures the integrity of information for decision making, and measures the full cost of the FCC's programs and their various elements, activities, and outputs.

[6] FCC's FY 2000 Annual Program Performance Report, March 2001

Dedicated Budgetary Resources by the 5 Core Functions[7]
(Dollar amounts in thousands)

	FY 2000 Estimate				FY 2001 Estimate			
Activity	**Cost-by-Activity**	**%**	**FTEs**	**%**	**Cost-by-Activity**	**%**	**FTEs**	**%**
1. **Licensing**	$36,314	17.3%	402	20.8%	$41,388	18.0%	370	18.7%
2. **Promotion of Competitive Markets**	$68,009	32.4%	528	27.3%	$69,900	30.4%	510	25.8%
3. **Enforcement**	$65,070	31.0%	599	31.0%	$72,889	31.7%	658	33.3%
4. **Consumer Information Services**	$18,892	9.0%	236	12.2%	$22,993	10.0%	265	13.4%
5. **Spectrum Management**	$21,620	10.3%	168	8.7%	$22,764	9.9%	172	8.7%
TOTAL:	$209,905	100%	1,933	100%	$229,934	100%	1,975	100%

III. Strategies and Resources to Achieve Performance Goals: The FCC has identified strategies and resources to achieve the performance goals for each of the five core functions. The chart above details the estimated budgetary resources to achieve these performance goals. A summary of the strategies for each of the core functions follows.

A. ***Licensing*** – The FCC has sought to improve its licensing activities through a multi-year plan to reengineer and integrate its licensing databases, and through implementation of interactive, electronic filing systems. Initiatives have included universal licensing, streamlined application processes, revised and simplified licensing forms, blanket authorizations, and authorizations for electronic filing of license applications and certifications. The benefits derived from these efforts are manifold and include a more economical use of FCC personnel resources, improvement in processing times, the ability of licensees to file via the Internet or through other electronic filing mechanisms, and the ability to provide licensees with immediate status reports on their applications. These have resulted in the ability to provide improved service to the public.

B. ***Promotion of Competitive Markets*** – As the FCC's role changes from market regulator to market facilitator, the Commission will rely less on traditional rulemaking procedures where possible, and will rely more on interagency task forces, advisory committees, and state, local, and regional consortia. The FCC will endeavor to assist the rapid expansion of innovative new technologies. In addition, the Commission will continue to promote the development of competition in the local exchange market to increase the range of choices in local telephone service providers, multipoint video programming market services, and mobile wireless providers. At the same time, the Commission will review rules and spectrum allocation policies to ensure that FCC rules, regulations, and activities do not deter development of emerging technologies.

[7] Data sources: Annual Performance Plan as included in the FY 2002 Budget Estimates to Congress and supporting documentation from the FCC Budget Office.

C. ***Enforcement*** – An important element for competitive markets is the full and fair enforcement of the FCC's rules and regulations. Effective use of the FCC's resources is critical to ensuring full implementation of the Act, as amended, the 1996 Act and the Commission's rules specifically designed to open communications markets to competition and enhance choice for consumers. An essential step in achieving this objective was the creation of the Enforcement Bureau, consolidating functions formerly dispersed throughout the FCC. The Enforcement Bureau was created to respond quickly and efficiently to the demands of a competitive environment. The consolidation of FCC's enforcement activities allows for a streamlined, centralized enforcement program, capable of identifying problems as they emerge, and better equips the Commission to provide a wide range of enforcement initiatives. The Enforcement and Consumer Information Bureaus work together to watch for trends and share data. The end result is improved performance through an expanded outreach program, a better-educated telecommunications consumer, and a more law-abiding industry.

D. ***Consumer Information Services*** – In FY 2000, the FCC consolidated its consumer information activities within one organization to provide "one stop shopping" to the telecommunications consumer. Consolidation of consumer information services under a single structure yields significant benefits to consumers and stakeholders – providing timely, accurate, and consistent information; tracking trends and mapping "hot" consumer issues nationwide, by region or by state; achieving economies of scale; and developing a useful Consumer Information Strategic Plan for FCC-wide applications. Progress in the FCC's consumer information services includes development of: an Internet homepage with a wealth of information on all telecommunications topics; an electronic comment filing system that allows stakeholders throughout the country to file their rulemaking comments electronically; and Consumer Information Centers that provide consumers with detailed information on all telecommunications-related topics.

E. ***Spectrum Management*** – The successful deployment of many new communications technologies depends on the availability of electromagnetic spectrum. To ensure that the FCC does not hinder the growth of new services, the Commission issued guidelines for future spectrum management policies that will:

- ✓ Allow flexibility in allocations and service rules as appropriate;
- ✓ Promote new spectrum efficient technologies;
- ✓ Ensure that important communications needs, such as public safety, are met;
- ✓ Improve the efficiency of spectrum utilization;
- ✓ Encourage the development of secondary markets for spectrum to promote greater use of the spectrum;
- ✓ Continue to seek out ways to make more spectrum available, for example, by reclaiming spectrum for higher valued uses;
- ✓ Authorize equipment in a timely fashion while ensuring safety.

To improve spectrum management activities, the FCC established a Spectrum Policy Executive Committee to: (1) address broad policy issues affecting spectrum management; (2) implement initiatives consistent with spectrum allocation policies; and (3) coordinate inter-bureau spectrum issues.

IV. Process for Integrating Performance Measures in FCC Management Activities: The GPRA requires that Federal agencies establish standards to measure effectiveness and performance in achieving their goals and objectives. The GPRA requires Federal agencies to: develop a Strategic Plan covering the current and subsequent five fiscal years (revised every three years); prepare an Annual Performance Plan setting out performance goals for one fiscal year; and submit an Annual Program Performance Report comparing actual performance results with performance goals. The FCC has taken numerous steps to ensure that performance measures are integrated into the day-to-day activities of the Commission and used by FCC staff to manage results. The FCC recognizes that the GPRA is a valuable tool for achieving this end, and has integrated performance measures into management activities as follows:

A. ***Coordination***. The Performance Evaluation and Records Management (PERM) staff coordinates with the FCC Budget Office and the Chief Financial Officer (CFO) to discuss the development of performance measures and evaluation processes, and to ensure communication of these measures as they relate to the FCC's operations.

B. ***Meetings***. The PERM staff meets with bureau and office chiefs to provide an overview of GPRA, explain the goals of the annual performance planning process, and answer any questions from the bureau and office chiefs. Follow-up meetings are scheduled with individual managers as well as with the Office of the Chairman to discuss the status of performance measure development and outcomes.

C. ***Review of Performance Measures***. In response to requests from the Managing Director and PERM staff, bureau and office chiefs are asked to review performance measures and provide feedback on the previous year's Annual Performance Plan – which measures are still useful, which should be modified, and whether there are additional measures that would be useful from a management perspective.

D. ***Developing Outcome Measures***. Bureau and office chiefs are encouraged to develop outcome measures. Outcome goals reflect the intended result, effect, or consequence (e.g., impact) of carrying out a program or activity. Output goals, on the other hand, result from process-related measures, and reflect the level of activity or effort over a period of time (or by a specified date), including characteristics and attributes (e.g., timeliness) set as standards for conducting the activity or effort.[8] As a regulatory agency, however, it is difficult to measure with certainty the market impact of many of the FCC's measures. In addition, there are other limitations to performance measurement: performance cannot be fully described by a single indicator; indicators do not by themselves say why performance is at the level reported; focusing on quantifiable indicators can sometimes have unintended consequences; and, where performance measurement is feasible, the impacts will likely occur over a period of time, not in a single fiscal year.

E. ***Documentation***. Once the results of the efforts to develop performance measures are completed and analyzed, the new and revised measures are incorporated into financial and budget documents and the Annual Performance Plan.

[8] OMB Circular A-11, Section 200.2, page 484, July 2001.

F. ***Data Collection, Verification and Validation, and Creation of Quarterly Reports***. The PERM staff works with the bureaus and appropriate staff offices to collect relevant quarterly data on the performance measures. The data is then analyzed and summarized for the Quarterly Performance & Results Review (QPRR). Bureaus and offices are responsible for ensuring that data is validated and verified. However, PERM undertakes a second level of review. Where data appears to vary from trends or raise questions, PERM requests the bureau or office to further verify and validate that the data is relevant and reliable. Additionally, training provided to appropriate staff promotes accurate data entry, and program staff's review of the data helps assure reasonable accuracy and quality results.

G. ***Information Sharing***. These quarterly performance reports are distributed to management in all bureaus and staff offices within the FCC as a management tool for assessing performance to date. In addition, the QPRR is provided to, and used as a benchmark by, the Chief of Staff and the Chairman.

H. ***Management Tool***. FCC management uses the QPRR information as a tool to identify areas where goals are not being met, which enables PERM staff to work with bureaus and offices to make adjustments as necessary throughout the year. With the FCC's new pass/fail employee appraisal process, it is at the discretion of each bureau and office manager to identify the key performance measures that will be used for staff appraisals.

The FCC strives to ensure that the staff regularly assesses efforts to meet the FCC's performance goals so that appropriate progress is made throughout the year. As noted previously, the FCC is currently developing its MCAS, which will provide a financial management system that supports the partnership between program and financial managers, assures the integrity of information for decision making, and measures the full cost of the FCC's programs and their various elements, activities, and outputs. Using MCAS, FCC management will have an increased level of detail concerning the cost of doing business. Financial management data and information, which is accurate, timely, and consistent across FCC bureaus and offices, will be available simultaneously to program managers, financial managers, and budget officials.

V. Performance Measures Highlighted in the Financial Statements: The process for determining the appropriate performance measures for integration into the financial statements starts with initial discussions between PERM, Financial Operations, the Budget Office, and program staff, as appropriate. In those discussions, participants review the GPRA performance measures, identify measures for sizeable FCC activities, determine data sources, and select measures that have significant programmatic, financial, and/or managerial impacts. Once the MCAS is completed, linkages between performance measures and the Statement of Net Cost will be more easily achieved.

Based on guidance from the Office of Management and Budget (OMB) and the Financial Accounting Standards Advisory Board (FASAB), performance measures for the FY 2001 Annual Financial Report, highlighted below, have been selected because they are:

- ✓ aligned with the Commission's mission and goals;
- ✓ limited to the FCC's most significant programs; and

- ✓ consistent with the Commission's implementation of the GPRA as reflected in budget documents and other related materials.

VI. Measurement of FCC Strategic Goals and Objectives: This section discusses eight performance measures related to FCC's strategic goals and objectives as well as the FCC's success in achieving its FY 2001 targets. The eight performance measures include five that were previously incorporated into the FY 2000 Annual Financial Report plus three new measures selected from the Annual Performance Plan, consistent with FCC's Strategic Plan. All of the measures have been updated to reflect the performance results in the FCC's FY 2000 Annual Program Performance Report. Each section below includes a table that identifies the FCC's FY 2001 accomplishments. Where FY 1999 and FY 2000 data are available, they are also highlighted to provide trend information. Additionally, where a measure is new to this annual report it is identified as "new," whereas measures included in the previous Financial Statements are marked as "ongoing" and are updated to reflect any modifications to the goals. The performance measures were selected by FCC management as significant for inclusion in the FY 2001 Annual Financial Report for reasons noted above.

(1) ***LICENSING***:

***Strategic Goal* – Create a More Efficient, Effective and Responsive Agency**

Performance Objective* – Automate Agency Processes[9] *(ongoing)

This performance objective encourages the efficient and innovative licensing and authorization of filing services by automating or streamlining several critical FCC functions. The goal is to implement automated licensing and electronic filing systems across the Commission, creating a more efficient, effective and responsive FCC and substantially reducing backlogs in licensing applications, petitions for reconsideration, and other proceedings. As the FCC works to develop and implement new business processes and policies, coupled with advances in information technology, the FCC will be a leader in implementing Federal e-government initiatives.

Performance Measure	Measurement	FY 2000 Results	FY 2001 Goal	FY 2001 Results
Create a paperless FCC by automating functions and fully implementing automated licensing and electronic filing systems to promote one-stop shopping. Consolidate individual systems and adopt one standard user interface where possible to simplify public use of our systems.	Percentage of electronic applications submitted via licensing & filing systems	Result 59.9% actions (applications) filed electronically Goal: 60%	70% of all documents (applications) filed electronically	77%

The FCC is already seeking to improve its licensing activities through a multi-year Chairman-sponsored initiative to design and develop a common repository of information that can be shared by various Commission systems. The objective of this effort is to streamline FCC business processes, in order to enhance the public's ability to access FCC data, improve the manner in which the FCC serves its constituencies, and ensure that FCC processes are compatible with the modern communications industry that it

[9] In FY 2000, this performance objective was called "Create a Model Agency for the Digital Age," however, under the new Chairman, the name was changed to better depict the strategic goal, which remains unchanged from FY 2000.

regulates. One key area where the Commission could realize maximum benefits is in the integration and simplification of the FCC's application filing and licensing systems.

Specific FCC initiatives to promote improved business processes in licensing activities, include universal licensing, streamlined application processes, revised and simplified licensing forms, blanket authorizations, and enhanced electronic filing/licensing systems.[10] The benefits derived from these efforts are manifold and include a more economical use of FCC personnel resources, improvement in processing times, the ability of licensees to file via the Internet or through other electronic filing mechanisms, and the ability to provide licensees with immediate status reports on their applications. These have resulted in the ability to provide improved service to the public.

This measure compares the number of applications submitted using electronic licensing/filing systems with the total number of applications processed. In FY 2001, the number of applications received electronically by the FCC was 77% of the total processed, exceeding the Commission's 70% goal, and representing a 17% increase over FY 2000. The table below provides details for FY 2001 by bureau and office.

FY 2001 Electronic Filing/Licensing by Bureau and Office

Bureau/Office	Number of Electronic Filings/Applications	Total Number of Filings/Applications	Percent Achieved
Office of Engineering and Technology	2,412	2,886	83.5%
Wireless Telecommunications Bureau	453,043	577,290	78.4%
Mass Media Bureau	17,242	27,896	61.8%
International Bureau	2,533	6,281	40.3%
Common Carrier Bureau	641	2,906	22.0%
Total Agency	**475,871**	**617,259**	**77.0%**

By comparison, in FY 2000, about 60% of the applications were filed electronically. Specific FY 2000 electronic filing results by bureau and office were: Office of Engineering and Technology, 86%; Wireless Telecommunications Bureau, 63%; Mass Media Bureau, 27%; International Bureau, 21%; and Common Carrier Bureau, 25%.

In FY 2000 a total of 108 application and licensing services[11] were available, of which 78 of these services (72%) had automated licensing or electronic filing capability, utilizing 18 electronic filing, licensing, and public access systems. These figures remained constant in FY 2001.

In FY 2000, the FCC expended $17.7 million[12] of appropriated funds towards the Commission's information technology (IT) program, including base-level funds ($15.3

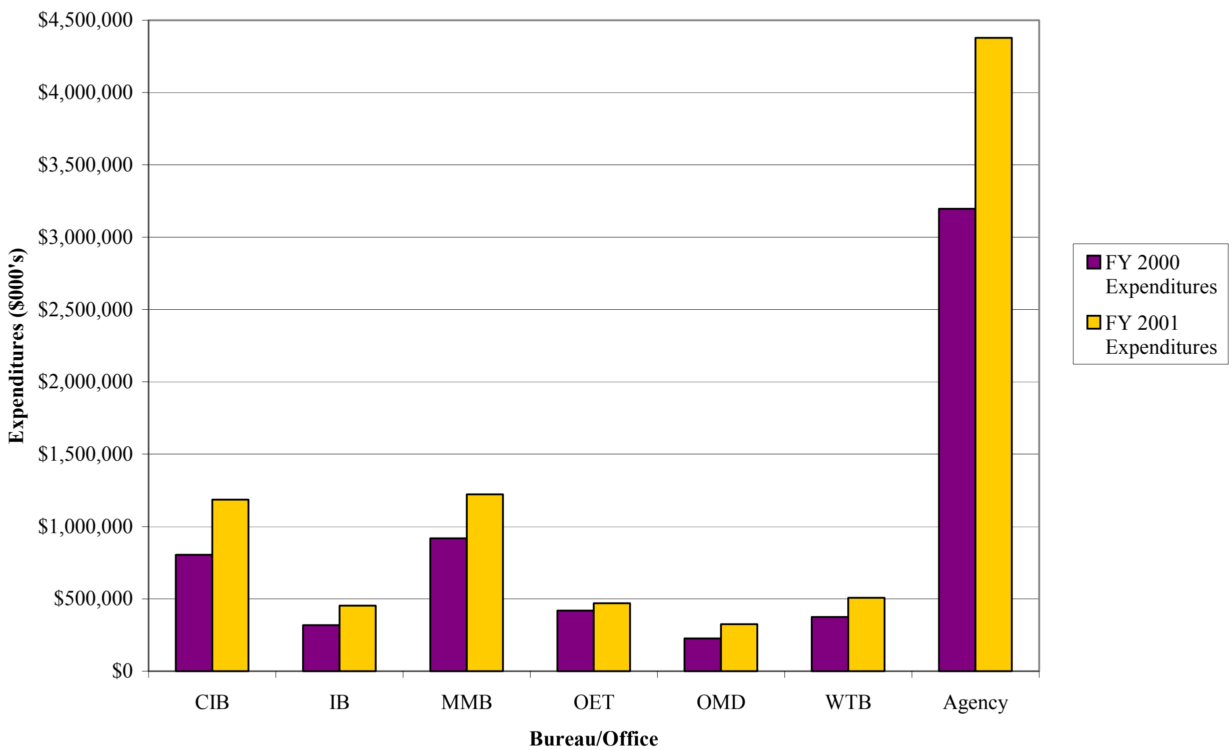
[10] There are twelve electronic filing/licensing systems: Universal Licensing System, Broadband Licensing System, Consolidated Database System, International Bureau Filing System, Management Database System, Electronic Comment Filing System, Operations Support for Complaint Analysis and Resolution, Cable Operations and Licensing System, Electronic Tariff Filing System, Access, Equipment Authorization System, and the Experimental Licensing System.
[11] A "service" refers to a discrete application or license.
[12] The FY 2000 actual expenditures differ from those included in the FY 2000 Annual Financial Report, which reflected budget estimates of obligations. Additional supplemental appropriated funds for Y2K remediation were obligated in FY 2000.

million) for day-to-day IT operations, bureau and office application systems maintenance, and limited life-cycle replacement in addition to the remaining Y2K remediation funds ($2.4 million). Of the expended amount, nearly $3.2 million[13] (18%) was used to promote electronic filing, streamlined application processes, enhanced customer access to information, facilitation of the creation of a paperless environment, and enhanced computer security for these mission-critical systems.

In FY 2001, the FCC expended $23.6 million of appropriated funds toward the Commission's IT program. Nearly, $4.4 million of these expenditures were obligated for electronic filing and licensing systems enhancements, technical support, and development. This represents about 19% of the total IT budget.

The chart below details the actual expenditures for electronic filing and systems development and maintenance by bureau and office for FYs 2000 and 2001.

Fiscal Years 2000 and 2001 IT Expenditures on Electronic Filing/Licensing Systems Maintenance & Development



[13] The FY 2000 actual expenditures differ from those included in the FY 2000 Annual Financial Report, which reflected budget estimates of obligations.

Currently, the FCC's Consumer Information Bureau is undertaking an information technology review to improve document management and operational issues impacting FCC's stakeholders from consumers and carriers to the states. While not an electronic filing or licensing system, the Consumer Information Management System (CIMS) will remove obsolete and unsupported proprietary technologies, reduce the existing multiple-database environment, and simplify workflows. Specifically, the use of commercial-off-the-shelf software, the addition of graphical user interfaces, Braille and audio interfaces, e-mail integration, Internet connectivity, and data and document storage are among the benefits to be realized. Security features will be available, as will the ability to capture documents and attachments such as electronic images to reduce workflow time and eliminate paper tracking processes. Once implemented, CIMS will provide the FCC with a single integrated ("unified messaging" concept) resource to quickly obtain accurate and up-to-date information, and will simplify public use of FCC systems.[14]

(2) ***LICENSING*:**

***Strategic Goal* – Create a More Efficient, Effective and Responsive Agency**

Performance Objective* – Streamline Agency's Processes & Procedures *(new)

This performance objective promotes the efficient and innovative licensing and authorization of services by creating a faster, flatter, more functional FCC. Across the Commission, the FCC must invest in new technologies that will improve processes and allow the Commission to be as responsive to customers as possible. The FCC must be structured to react quickly to market developments, to work more efficiently with a competitive industry, and to focus on bottom line results for consumers. Ultimately, the Commission must be structured to render decisions quickly, predictably, and without imposing needless costs on industry or consumers through unnecessary delays.

Performance Measure	**Measurement**	**FY 2000 Results**	**FY 2001 Goal**	**FY 2001 Results**
Improve our speed of disposal for processing license applications	Percentage of applications disposed within speed of disposal (SOD) goals	Result: 89% of all applications processed within goals Goal: 90%	90% of applications disposed of within SOD goals	93.7%

Each of the bureaus and staff offices sets customer service speed of disposal goals for the processing and disposing of license applications, tariff filings, formal complaints, and cable service activities. Internal and external factors, including resources for staffing and estimates of workload, play a role in the FCC's ability to meet goals for processing license applications. In some cases, conflicting applications, complex legal and engineering questions, and other issues arose that impact the measurement of speed of disposal. As a result, the FCC is reviewing the approximately 300 different processing goals for all of its actions in an effort to improve consistency in measuring the speed of disposal.

[14] From "Business Process Review Report," prepared by DynCorp Information & Enterprise Technology (2-7-01)

For example, the Mass Media Bureau (MMB) sets goals based on a number of factors. In the case of "AM & FM New and Major Changes," the process starts when the first applicant files for a license. Time is needed to issue a public notice and invite competing applications; respondents must be given time to prepare competing applications; the MMB then evaluates the applications; respondents have the opportunity to file petitions to deny; the MMB evaluates and responds to those petitions, if filed; the MMB then processes all the applications (which could include engineering evaluations, legal determinations, Federal Aviation Administration tower clearances, local government approvals, among other issues). In addition to this example, other programs have statutory requirements under which licenses cannot be acted upon until 120 days after expiration of the public notice inviting applications.

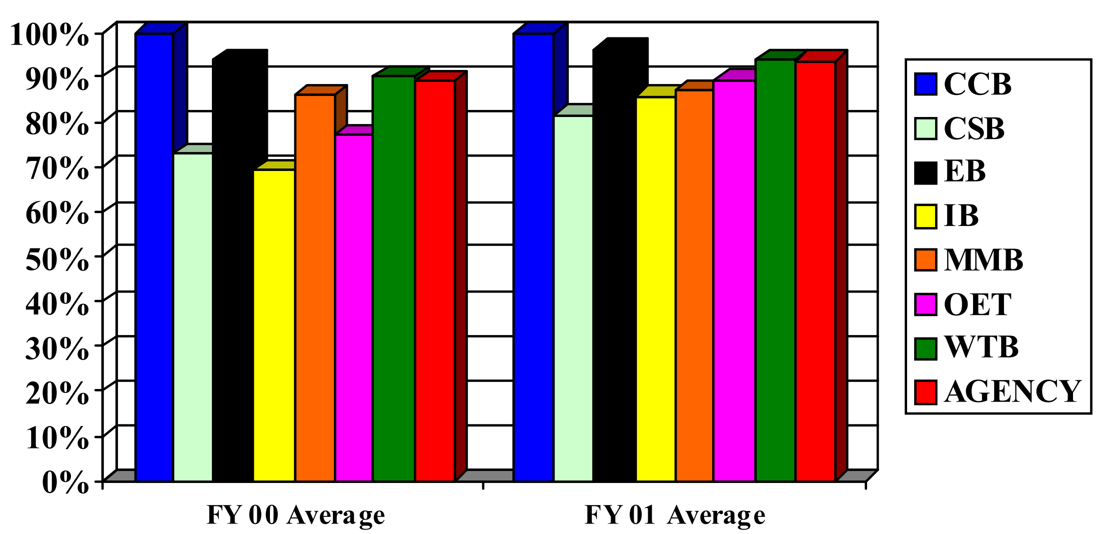
Tracking of the speed of disposal goals is based on "non-routine," "routine," and "blocked" categories, defined generally as follows:

- ✓ **Routine:** applications/cases/proceedings that are uncontested, non-blocked, and do not involve waivers or any complex matters or circumstances.
- ✓ **Non-routine:** applications/cases/proceedings that are contested or involve rule waivers, conflicting proposals or other issues within the bureau's purview.
- ✓ **Blocked:** applications/cases/proceedings that involve issues or processing outside of the Commission's control.

Of the 603,417 actions disposed of in FY 2001, 565,830 were disposed of within the speed of disposal goals. Agency-wide, the percentage of actions disposed of within the speed of disposal goals was 93.7%.

In FY 2000, a total of 543,066 actions were disposed of, 484,992 of which were disposed of within the speed of disposal goals. Agency-wide, the percentage of actions disposed of within the goal for speed of disposal (90%) was 89%.

Percentage of Actions Disposed Within Speed of Disposal Goals
FY 2001 Goal: 90%



Source of Data: SOD Reports from Bureaus/Offices.

(3) ***LICENSING*:**

***Strategic Goal* – Create a More Efficient, Effective and Responsive Agency**

Performance Objective* – Streamline Agency's Processes & Procedures *(ongoing)

This performance objective promotes the efficient and innovative licensing and authorization of services by creating a faster, flatter, more functional FCC with substantially reduced backlogs in licensing applications, petitions for reconsideration, and other proceedings. The FCC must be structured to react quickly to market developments, to work more efficiently with a competitive industry, and to protect consumers.

Performance Measure	Measurement	FY 2000 Results*	FY 2001 Goal	FY 2001 Results
Substantially reduce our backlog including licensing applications, petitions for reconsideration, and other proceedings.	The number of applications backlogged compared to the number of applications received. (A backlog is defined as 1.5 times the speed of disposal (SOD) goal.)	Result: By the end of the 4th quarter, FY 2000, backlog had been reduced by 96.4% Goal: Backlog in applications does not exceed 40% of receipts	Backlog will not exceed 10% of receipts	On average, backlog was 1.5% of receipts

* In some cases the FCC may not meet timelines due to external requirements (e.g., involvement of outside agencies).

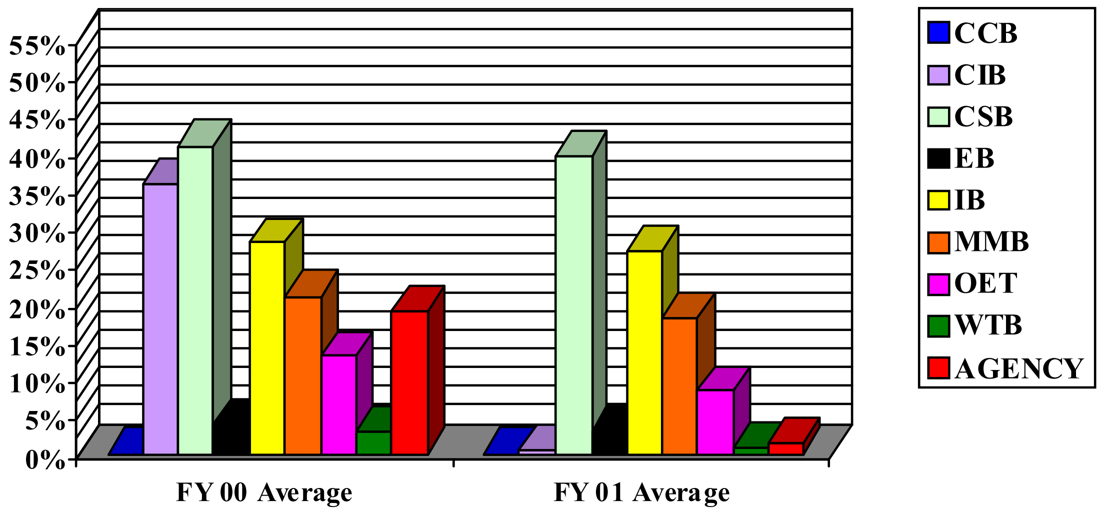
In calculating the percentage of backlogged applications, the FCC incorporates the workload for processing new applications, which impacts the Commission's ability to respond to overage cases. In FY 2001, the FCC reduced backlogs from 3.1% in the first quarter to 0.82% in the 4th quarter. Overall, by the end of FY 2001, the FCC reduced its backlog by 99% FCC-wide. On average, backlogs were 1.5% of receipts, thus exceeding the goal of 10%. In some cases, these backlogs existed due to technical issues unresolved within the industry, processing procedures in the satellite space program, and broadcast auction procedures.

In FY 2000, the FCC reduced its backlog from 40% in the first quarter and further reduced its backlog to nearly 4%[15] by the end of the fourth quarter. Overall, the FCC reduced the backlog by over 96% in the 4th quarter. Significant concentration was placed on reduction of the informal complaints backlog.

By reducing the number of forms required, and enabling the public to file applications electronically, the FCC will be in a better position to respond to backlogged applications, thereby providing better customer service. For example, in FY 2000, FTE resources were reallocated to the Enforcement Bureau (EB) and the Consumer Information Bureau (CIB), both of which experienced significant reductions in backlogs that year. In addition, the FCC refocused its backlog reduction efforts toward the elimination of a significant number of informal complaints in CIB.

[15] Note that FY 2000 results differ slightly from the FY 2000 Annual Financial Report due to reassessment and corrections made based on internal audits of automated systems.

Backlog Reduction Efforts
(Percentage of Total Workload Identified as Backlogged – i.e., 1.5 times the SOD Goal)



Source of Data: SOD Reports from Bureaus/Offices.

(4) ***COMPETITION*:**

***Strategic Goal* – Promote Competition in All Telecommunications Markets**

Performance Objective* – Eliminate Barriers to Entry in Domestic Markets *(new)

This performance objective promotes the development of competitive, innovative, and high quality communications systems. As the Commission strives to assist in the rapid expansion of innovative new technologies, its role will change from market regulator to market facilitator. The FCC will continue to promote competition in the local exchange market to dramatically increase the range of choices in local telephone service providers, multipoint video programming market services, and mobile wireless providers.

Performance Measure	Measurement	2000 Results	2001 Goal
Complete the opening of local telecommunications markets through pro-competitive unbundling, interconnections & co-location policies	Percent growth in competition and consumer options – the "State of Competition Reports"	88% of households with 1 new residential LEC* Goal: 15% 73% with 2 residential LECs Goal: 10% 2.6% penetration –households with access to advanced cable services Goal: 15% 5% with access to 5 MVPDs** 6% - 4 MVPDs 91% - 3 MVPDs Goal: 10% 5 MVPDs 75% of households with access to 5 or more mobile wireless providers 84% - 4 or more 91% - 3 or more Goal: 73% with 5 or more	30% of households living within zip codes with at least 1 CLEC*** 10% w/ 2 CLECs 15% of households have access to high-speed and advanced services 10% households have access to 5 or more MVPDs 78% households with access to 5 or more mobile wireless providers FY 2001 results will be available in Summer 2002 when the corresponding competition reports are released

* Local Exchange Carrier (LEC)
** Multichannel Video Program Distribution (MVPD) Providers
*** Competitive Local Exchange Carrier (CLEC)

In FY 1999, the FCC implemented a variety of rulemaking decisions designed to provide guidance in the areas of unbundling, co-location, line-sharing, and pricing in order to facilitate local competition. These decisions prescribe certain minimum points of interconnection necessary to permit competing carriers to choose the most efficient points at which to interconnect with the incumbent local exchange carrier's (ILEC) network. While the actual pricing is left to the states, the FCC provides a methodology for establishing the rates for interconnection and the purchase of unbundled elements. The FCC's cost-based pricing methodology is based on forward-looking economic costs, and is at the core of bringing competition to the communications market.

In March 2000, the Commission established a local competition and broadband data-gathering program to assist the Commission in its efforts to monitor and further implement the pro-competitive, deregulatory provisions of the 1996 Act. Under this program, service providers file reports with the Common Carrier Bureau twice a year, providing data that allows the FCC to examine competition and barriers to entry. The Cable Services Bureau collects similar information from the industry once each year. The data is used to develop competition reports on the communications industry. These reports are based on the calendar year, rather than FCC's fiscal year.

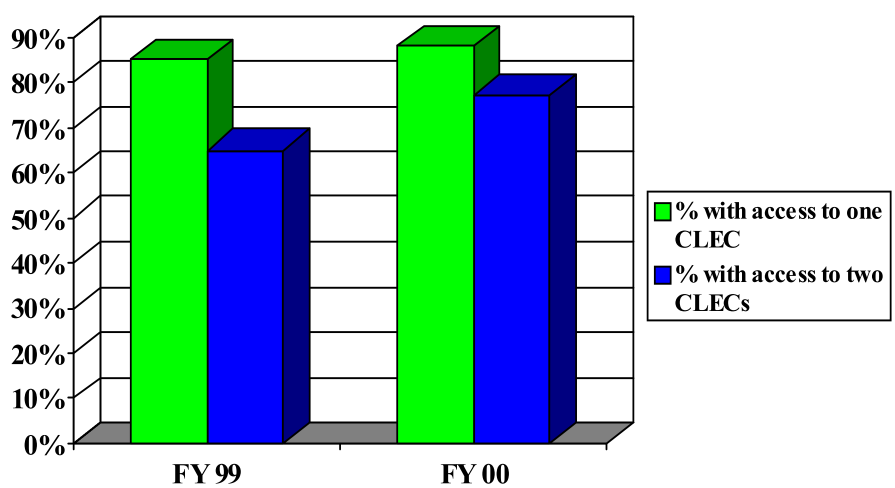
Competitive Local Exchange Carriers

During FY 2001, the Chairman met with several competitive local exchange telephone carriers (CLECs) to discuss and assess what is working in the industry, technological obstacles, and best practices to bring effective competition to local phone markets. This is one example of FCC outreach to better understand the industry.

In calendar year 2000, 88% of households within each zip code had access to at least one new local exchange carrier and 77% had access to two, exceeding the FCC's goals of 15% and 10%, respectively. And, in 1999, 85% had access to at least one. By the end of calendar year 2000, competitive local exchange carriers reported 16.4 million (or 8.5%) of the approximately 194 million nationwide local telephone lines were in service to end-user customers, compared to 12.7 million (or 6.7%) six months earlier. This represents a 29% increase in the CLEC market size during the second half of calendar year 2000.[16]

Local Exchange Carrier Competition

(FY 2001 Goal: 30% of Households with Access to 1 Competitive Local Exchange Carrier (CLEC); 10% with access to 2)



Source of Data: CCB Annual Competition Reports; FY 2001 statistical data will not be available until Summer 2002. The data is obtained from industry reports based on the calendar year ending December 31. Results indicate availability within zip code only; the percentage of residential customers currently is lower than the access rate.

16 "Local Telephone Competition: Status as of December 31, 2000," Industry Analysis Division of the Common Carrier Bureau, Federal Communications Commission, May 2001.

Penetration of Advanced Services

The FCC also set a goal of a 15% penetration rate for "advanced cable services." The scope of this performance measure has evolved with the technologies, beyond just cable services. Section 706 of the 1996 Act requires that the FCC conduct inquiries to determine "whether advanced telecommunications capability is being deployed to all Americans in a reasonable and timely fashion." Results of these surveys are published in annual competition reports, which are used to determine the effectiveness of the FCC's efforts to reach its goal. Advanced telecommunications capability refers to the availability of high-speed, switched, broadband telecommunications that enables users to "originate and receive high-quality voice, data, graphics, and video using any technology." "Advanced telecommunications capability" and "advanced services" can support two-way (provider-to-customer/downstream and customer-to-provider/upstream) communications with a broadband width in excess of 200 kilobits per second (kbps). "High-speed" services are those with over 200 kbps in at least one direction.[17]

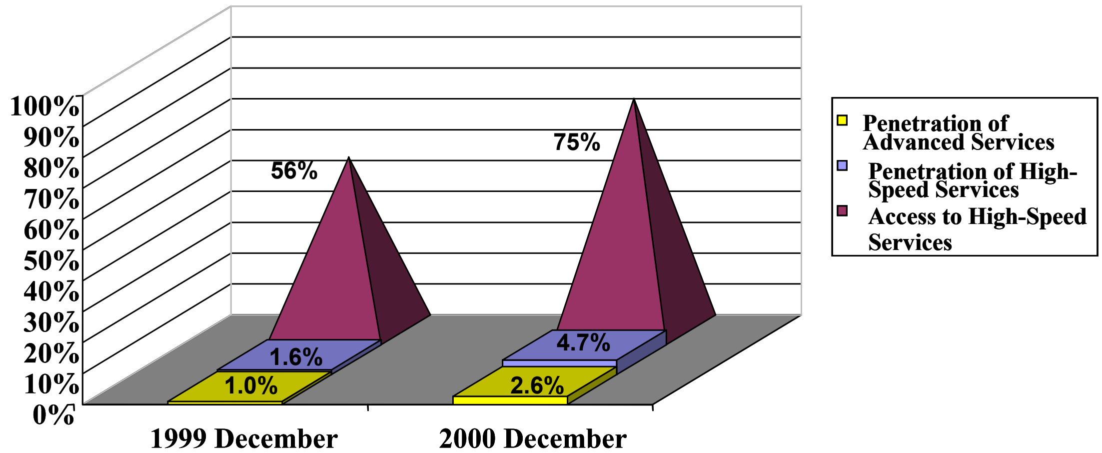
At the end of calendar year 2000, the penetration rate for advanced services had increased to 2.6% (not meeting the FY 2000 goal of 15%). However, over 96% of the country's population lived in the 75% of zip codes having access to at least one high-speed service provider (data is not currently collected on access to advanced services).[18] At the end of calendar year 1999, the penetration rate was 1.0%. So, while the 2000 goal was not met, the growth in advanced services increased by 62% over 1999. Results for 2001 will be available in Summer 2002.

External factors may impact the FCC's ability to meet this goal. With many of the new technologies in their infancies, uncertainty remains as to the final capability of some services. In addition, the degree of consumer demand for these new communications services remains unknown, and in these initial stages, prices may outstrip demand. The FCC continues to take steps to remove barriers to deployment, to encourage investment in technologies that deliver advanced services, and vigorously promote competition in the marketplace. The FCC has encouraged initiatives that facilitate the increased speed of deployment of advanced services, by participating in a Joint Federal-State Conference on Advanced Services ("Joint Conference"), promoting competition-friendly laws, encouraging strategic planning and investment by state and local governments, and helping foster activism among local business and consumer groups. The FCC also continues to seek comments from stakeholders on how the FCC or state commissions can better encourage deployment of advanced telecommunications services generally by utilizing "price cap regulations, regulatory forbearance, measures that can promote competition in the local telecommunications market, or other regulatory methods that remove barriers to infrastructure investment."[19]

[17] "Federal Communications Commission High-Speed Services for Internet Access," Industry Analysis Division of the Common Carrier Bureau, August 2001.
[18] Ibid.
[19] FCC's "Third Notice of Inquiry" released August 10, 2001 (CC Docket No. 98-146).

Penetration and Accessibility of High-Speed & Advanced Services

(FY 2001 Goal: 15% of Penetration Rate for Advanced Services – Residential)



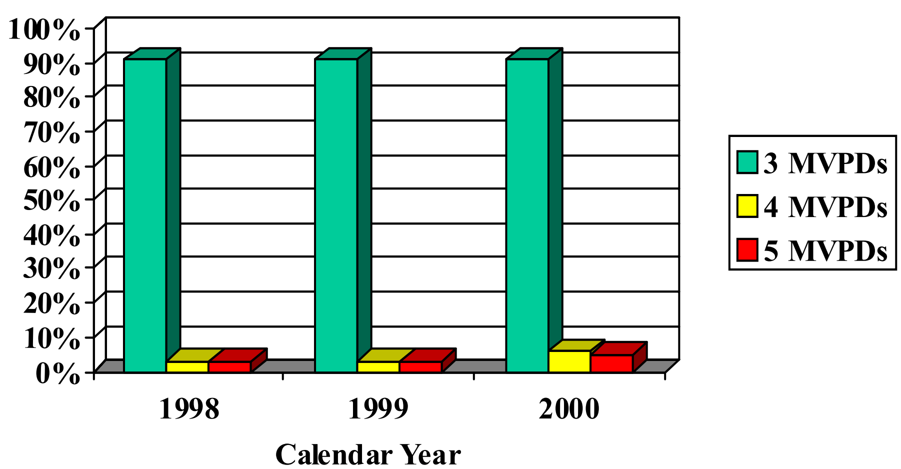
Source of Data: Common Carrier Bureau.

Mutichannel Video Program Distribution

By the end of calendar year 2000, 5% of households had access to at least five or more multichannel video program distribution (MVPD) providers, falling short of the 10% goal. However, 91% of households had access to at least three MVPD providers, and 6% of had access to at least four MVPD providers. To better reflect ongoing consolidation in the MVPD industry, the FCC will change the annual goal to track households with access to 3, 4 or more distributors.

Multichannel Video/Broadcasting Penetration

(FY 2001 Goal: 10% of Households with Access to 3 or More Multichannel Video Programming Distributors)

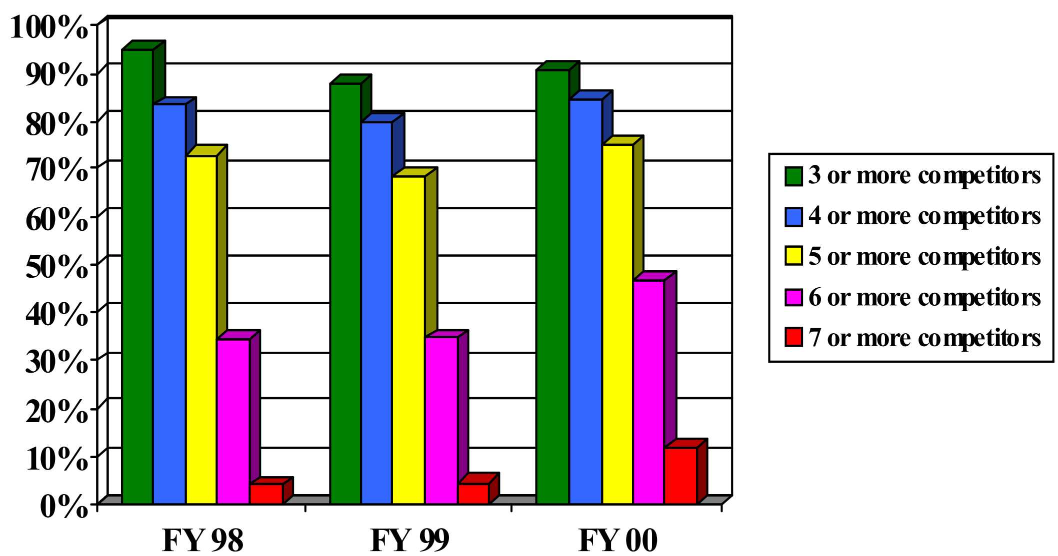


Source of Data: Cable Services Bureau.

Access to Wireless Providers

The FCC exceeded its FY 2000 goal that 10% of all households be provided with access to 5 or more mobile wireless providers, with 73% of households having such access by the end of calendar year 2000. The 1998 figures in the chart below are based on coverage by basic trading area (BTA), while the 1999 & 2000 numbers are based on coverage by county. In all three years, a carrier need only cover a small portion of the geographic area in order to be considered providing service. Therefore, under either method, coverage is overstated. However, coverage based on counties is more accurate.

Wireless Competition
(FY 2001 Goal: 78% Population with Access to 5 or More Providers)



Source of Data: Sixth Report on the State of Competition in the Wireless Industry, July 2001. FY 2001 Statistics will not be available until Summer 2002.

According to the FCC's "State of Competition in the Wireless Industry Report," there has been strong growth in the mobile telephony sector. At the end of calendar year 2000, 259 million people, or almost 91%, have access to three or more different operators (cellular, broadband PCS, and/or digital specialized mobile radio providers) offering mobile telephone services in the counties in which they live. Over 214 million people, or 75% of the U.S. population, live in areas with five or more mobile telephone operators competing to offer service. And 133 million people, or 47% of the population, can choose from at least six different mobile telephone operators.[20]

[20] "Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services," FCC's Sixth Report (FCC 01-192) released July 17, 2001.

(5) ***COMPETITION*:**

***Strategic Goal* – Promote Competition in All Telecommunications Markets**

Performance Objective* – Deregulate where Appropriate to Promote Competition *(ongoing)

This performance objective relates to the FCC's formal inquiries and rulemaking proceedings. The goal of this objective is to encourage the development of competitive, innovative, high quality communications systems, with a minimum of regulation, or with an absence of regulation where appropriate in a competitive market. The FCC is eliminating barriers to competition by deregulating where appropriate, and eliminating outdated rules to reduce the burden on participants in FCC programs.

Performance Measure	Measurement	FY 2000 Results	FY 2001 Goal	FY 2001 Results
Reduce the burden of filing, reporting, record keeping and accounting requirements across all communications industries	Overall reduction in the number of forms required by the FCC	Result: 1.4%[21] reduction in forms Goal: 10%	20%	7.9%

According to performance data collected from the various bureaus and offices, the total number of FCC forms at the start of FY 2001 was 139 Commission-wide. During FY 2001, 20 forms were combined or eliminated, and 9 new forms were approved. The total number of forms at the end of FY 2001 was 128, representing a 7.9% reduction from FY 2000. Recent increases in the number of FCC forms are the result of requirements for data collection imposed by Congress. The FCC has determined that a preferred way to measure the Commission's progress in reducing reporting requirements would be an annual review of half of the FCC's forms.

The FCC's Information Collection Budget (ICB) submitted to OMB is compiled annually and tracks the number of FCC forms as well as burden hours and costs to the public. The FCC's FY 2002 ICB had not been published at the time of this Annual Financial Report.

The FCC's FY 2001 ICB (November 2000) estimated a burden reduction on the public of 10.9% over FY 2000. Burden hours are estimates of the amount of time expected for the public to complete required documents (e.g., forms, applications, etc.).

In FY 2000, 14 forms were combined or eliminated. Twelve additional forms were created to accommodate new collection needs, leaving the total number of forms at the end of FY 2000 at 139 (a 1.4% reduction from FY 1999). According to the OMB's FY 2001 "Information Collection Budget of the United States Government," the FCC reduced burden on LECs by over 1.7 million hours by reducing the amount of information needed to request a change in access fees in FY 2000.[22]

[21] During FY 2000, the agency did not have a mechanism in place to efficiently track the total number of FCC forms, and numerous forms identified by the Office of Management and Budget were counted twice. The correct number of forms at the beginning of FY 2000 was 141, thus changing the percentage in forms reduction from 7% to 1.4%.
[22] "Information Collection Budget of the United States Government," OMB, August 1, 2001.

(6) ***COMPETITION*:**

***Strategic Goal* – Promote Opportunities for All Americans to Benefit from the Communications Revolution**

Performance Objective* – Promote Access For All Americans to Communications Services[23] *(ongoing)

This performance objective encourages the development of competitive and innovative communications systems, by promoting opportunities for all Americans to access existing and future communications services. As the FCC strives to promote competition, it will continue to monitor the marketplace to ensure that the benefits of advanced telecommunications services and the new information economy is available to everyone, able-bodied or disabled, in every school, classroom, and library as well as in high-cost, low-income, and rural communities throughout the United States.

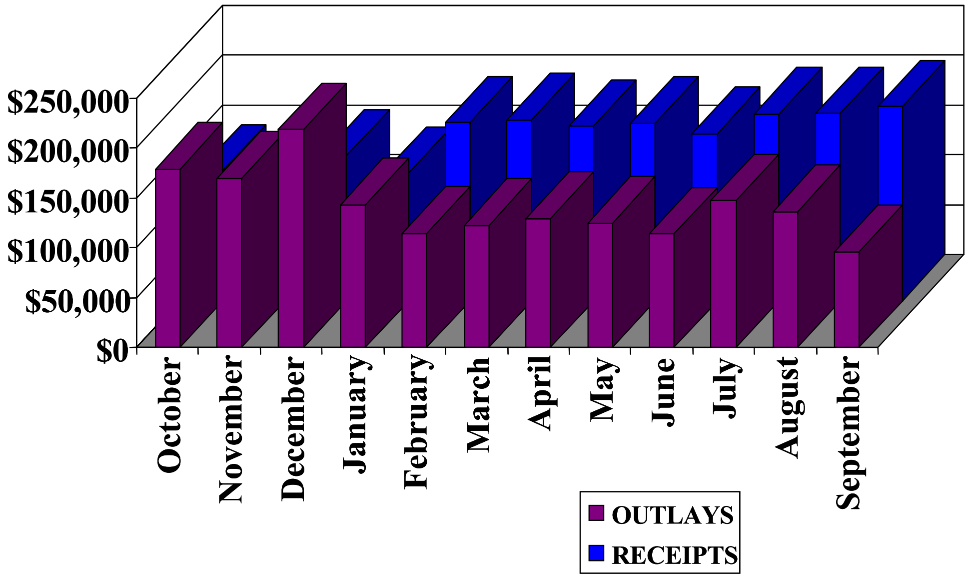
Performance Measure	Measurement	FY 1999 Results	FY 2000 Results	FY 2001 Goal
Continue oversight of the universal service discount mechanism for schools; fully implement the Schools and Libraries Program	Percentage of public school instructional classrooms receiving telecommunications services, Internet access, or internal connections at reasonable rates	63% of public school instructional classrooms connected to the Internet	Result: 77% of public school instructional classrooms connected to the Internet Goal: 75%	90% of public school instructional classrooms connected to the Internet Results unavailable until Spring 2002

The Schools and Libraries support mechanism – often called the Education rate or "E-rate" – provides support for eligible schools and libraries to help offset the cost of telecommunications services. The range of discounts available corresponds to the income level of students' families in the community as well as the location of the school or library (e.g., urban or rural). Income for a school or district is measured by the percentage of students eligible for the National School Lunch Program. In FY 2001, the USF, for the Schools and Libraries Program, collected gross receipts of approximately $2 billion, with outlays of approximately $1.7 billion. In FYs 1999 and 2000, the USF collected gross receipts of approximately $1.5 billion and $2.0 billion, respectively, with outlays of approximately $1 billion and $1.6 billion, respectively.[24]

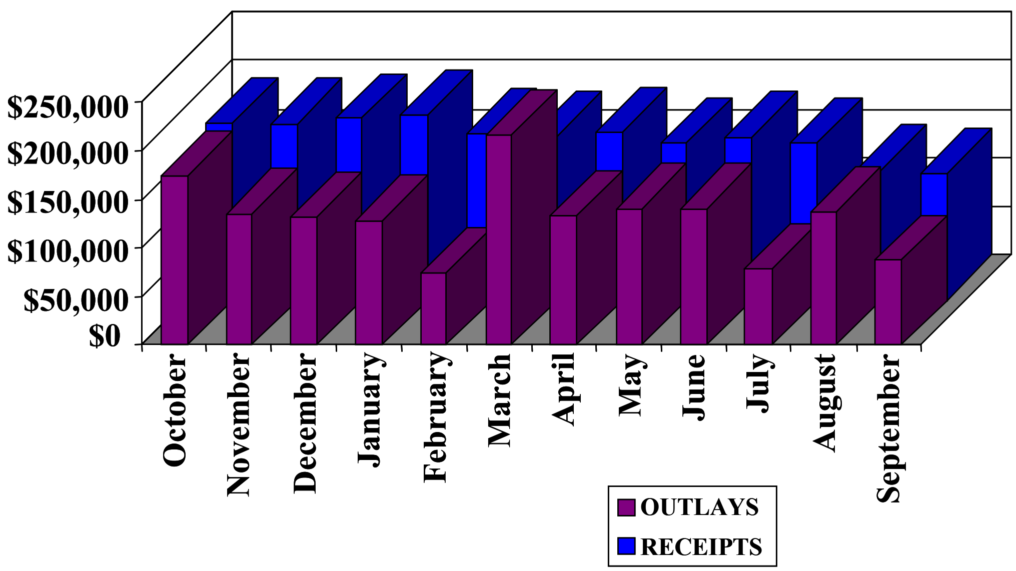
By the fall of 2000, approximately 98% of public schools (as distinct from instructional classrooms) were connected to the Internet. The percentage of public school instructional classrooms connected to the Internet increased to 77%, surpassing the FCC's goal of 75%.[25] Instructional classroom connection rates for 2001 will be available when the National Center for Education Statistics (NCES) publishes their 2001 report in the spring of 2002.[26]

[23] In FY 2000, this performance objective was included under the strategic goal to "Promotion of Competitive Markets Domestically and Internationally," however, under the new Chairman, the objective was re-categorized to better reflect the strategic goal.
[24] Gross receipts and outlays are based on monthly SF-224 reports, using the FCC's FY October 1 to September 30.
[25] National Center for Education Statistics, "Internet Access in U.S. Public Schools and Classrooms: 1994-2000" (May 2001).
[26] The USF funding year starts July 1 and ends June 30 of the following year.

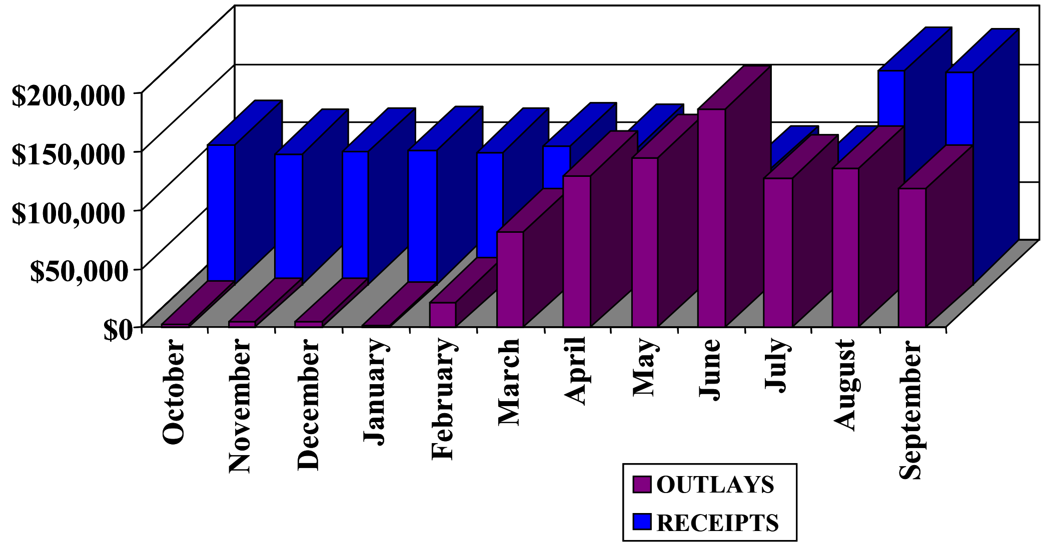
FY 2001 USF Schools and Libraries Fund
(in thousands)



FY 2000 USF Schools and Libraries Fund
(in thousands)

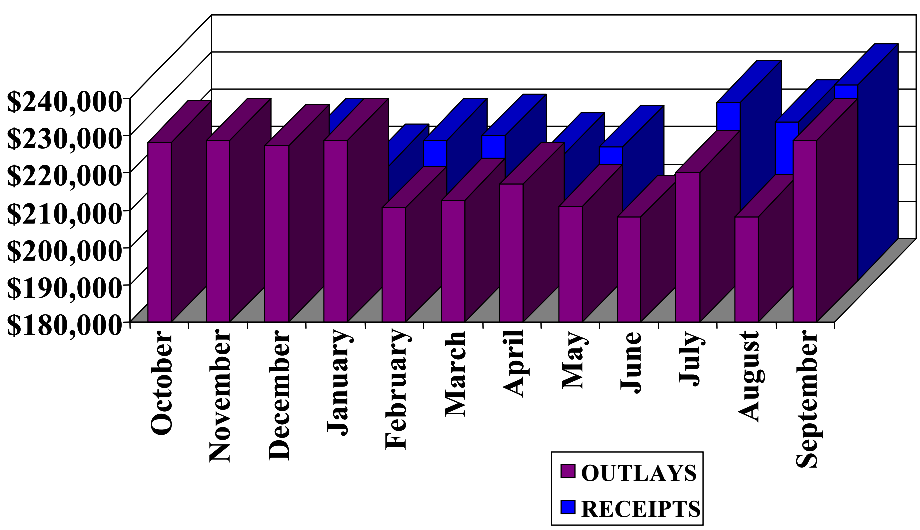


FY 1999 USF Schools and Libraries Fund
(in thousands)

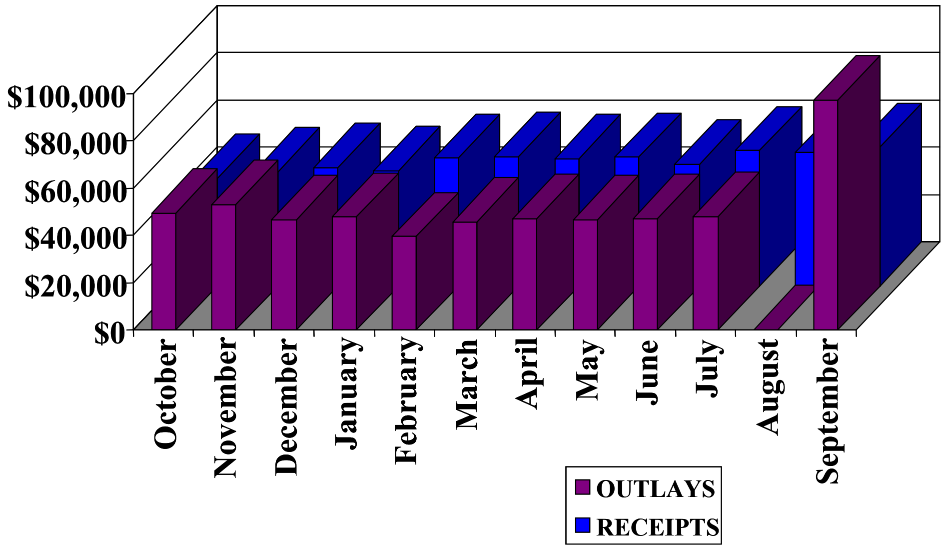


In addition to the Schools and Libraries support mechanism, the Universal Service Fund supports the High-Cost, Low-Income, and Rural Health Care Support mechanisms. The following charts provide the monthly receipts and outlays for each of the support mechanisms. In FY 2001, the High Cost fund collected gross receipts of approximately $2.6 billion with outlays of approximately $2.6 billion; the Low Income Fund collected gross receipts of approximately $633.2 million, with outlays of approximately $569 million; and the Rural Health Care fund collected gross receipts of approximately $9.1 million, with outlays of approximately $5.5 million.

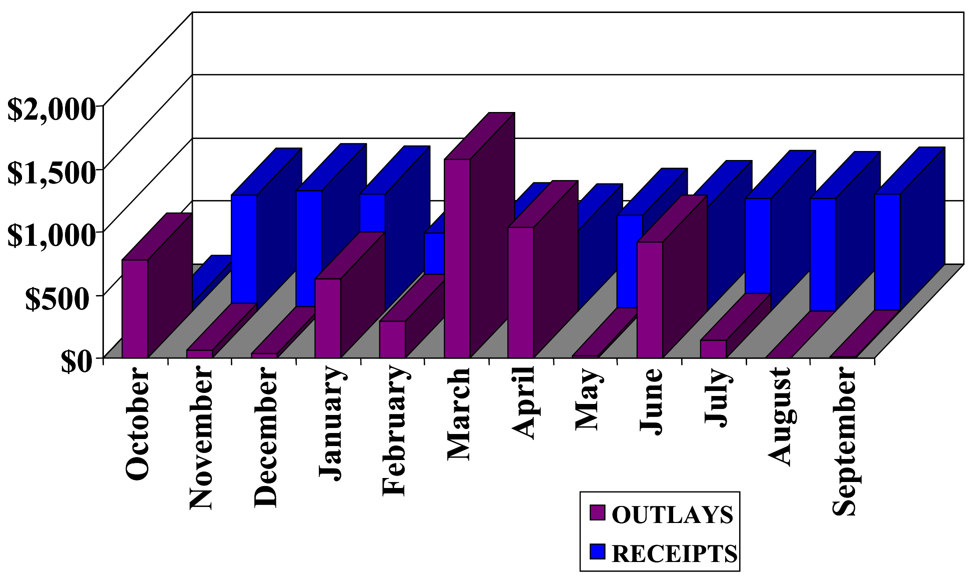
FY 2001 USF High Cost Fund
(in thousands)



FY 2001 USF Low Income Fund
(in thousands)



FY 2001 USF Health Care Fund
(in thousands)



(7) ***ENFORCEMENT*:**

***Strategic Goal* – Promote Competition in all Communications Markets**

Performance Objective* – Enforce the Rules so that Businesses Compete Fairly *(new)

This performance objective is part of the FCC's efforts to enforce the Act, as amended, the 1996 Act, and the Commission's rules, regulations, and authorizations. These enforcement efforts involve investigations, inspections, compliance monitoring, and sanctions, including civil monetary penalties (CMPs). The FCC promotes the public interest and pro-competitive policies by enforcing statutory provisions and rules and regulations that ensure that Americans are afforded efficient use of communications services and technologies. By enforcing the rules, businesses will compete more fairly.

Performance Measure	Measurement	FY 2000 Results	FY 2001 Goal	FY 2001 Results
Show zero tolerance for perpetrators of consumer fraud such as slamming and cramming. Impose substantial monetary forfeitures against the worst offenders.	Percent reduction in the number of informal long distance slamming complaints	9 major slamming actions taken $5.65 million collected No FY 2000 goal	20% reduction in number of informal long distance slamming complaints	10 major slamming actions taken $520,000 collected 50.8% reduction in slamming complaints

Slamming is the illegal practice of changing a consumer's telephone service – local or long distance – without permission. The FCC adopted new slamming liability rules (effective November 2000), which allow states to "opt in" to become the primary forums for administering the slamming liability rules and resolving individual slamming complaints. Where states do not opt in, the FCC administers the rules. The Commission's slamming liability rules provide a remedy to better protect consumers by requiring unauthorized carriers to absolve consumers of unauthorized charges and to reimburse authorized carriers and consumers for charges already paid. These rules help to eliminate profits for telephone companies that slam consumers. Where the consumer has not paid the unauthorized carrier, the consumer will be absolved of the obligation to pay for service for up to 30 days after a slam. Where the consumer has paid the unauthorized carrier, the rules require the unauthorized carrier to pay 150% of the charges it received from the consumer to the authorized carrier, which must, in turn, reimburse the consumer 50% of the charges paid by the consumer.

Consumers file informal slamming complaints (by phone, letter, e-mail), and the FCC or the "opt-in" state serves the carrier with the complaint. Carriers have 30 days to respond. If consumers are unhappy with the response they may file a formal complaint with the FCC. Complaints by carriers against other carriers are generally formal complaints (and likely involve litigation). In some cases, the FCC concurs with the carrier and lowers fines. In addition to enforcing the slamming complaint rules, the FCC regularly tracks informal slamming complaints filed with both the FCC and the states, and where the trend shows repeat slamming cases, FCC serves a "Notice of Apparent Liability" (i.e., forfeiture order). These forfeiture proceedings have resulted in millions of dollars in fines levied against unauthorized carriers.

In FY 2001, 3,493 slamming complaints were filed with the FCC for resolution, representing a reduction of 50.8% over FY 2000. Approximately 2,300 additional slamming complaints received by the FCC in FY 2001 were forwarded to the "opt in" states to resolve (under the provisions noted above), and therefore were not included in the FCC's FY 2001 results. The FCC also completed ten major actions (i.e., issued a Forfeiture Order, Consent Decree, and/or Petition for Reconsideration) against six carriers, and $520,000 was collected for slamming offenses against one carrier. Where the FCC is unable to collect fines, or negotiate an appropriate settlement, the cases are referred to the Department of Justice for collection. The FY 2000 performance plan did not include quantitative goals for reducing the number of slamming complaints. However, in FY 2000, FCC received a total of 7,104 slamming complaints filed with the Commission by members of the public. During FY 2000, the FCC completed nine major actions against eight carriers guilty of slamming practices. The FCC collected $5.65 million for violations against three of the carriers.

(8) ***SPECTRUM MANAGEMENT*:**

***Strategic Goal* – Manage the Electromagnetic Spectrum in the Public Interest**

Performance Objective* – Foster the Increased Availability of Spectrum** ***(ongoing and new)

This performance objective promotes efficient and effective management of the Nation's airwaves for all non-Federal Government users, including commercial, international business, and public safety users. Spectrum management includes the structures and processes for allocating, assigning, and licensing this scarce resource in a way that promotes competition while ensuring the public interest is served. The Commission relies on market-based technical solutions to maximize the use of spectrum in an efficient and equitable manner.

Performance Measure	Measurement	FY 2000 Results	FY 2001 Target	FY 2001 Results
New Services*	The number of new mobile, fixed, and broadcast services	Results: 2 GHz of additional spectrum for unlicensed services allocated. Goal: Allocate 4 GHz of spectrum for unlicensed services.	Initiate 3G spectrum allocations	3G spectrum allocations delayed until after Spring 2002 assessment completed

* *Note this measure refines the FY 2000 goal, which aimed to "increase the amount of spectrum available for use, particularly for new services." Results for this measure are included in the FY 2000 column above.*

Spectrum is divided into blocks or bands of frequencies called allocations, which determine the type of use allowed. Some of the considerations in determining allocations include: public need and benefits; amount required; controlling interference with other services; technical considerations; and economic viability of services. Finding spectrum for new services includes efforts to increase sharing (different services using the same spectrum), and to increase efficiency by increasing the amount of information that can be transmitted (modulation) or reducing the amount transmitted (compression).

Third generation (3G) wireless systems, a new service, will provide access, by means of one or more radio links, to a wide range of telecommunication services supported by fixed networks and to other services specific to mobile users. A range of mobile terminal types (for mobile or fixed use) will be encompassed, linking to terrestrial and/or satellite-based networks. Key features of 3G systems include: a high degree of commonality of design worldwide, compatibility of services, use of small pocket terminals with worldwide roaming capability, and Internet and other multimedia applications.

In July 2001, the Department of Commerce and the FCC agreed to postpone the FY 2001 deadline for the Commission to identify spectrum allocations for 3G systems until FY 2002. The National Telecommunications and Information Administration (NTIA) and the Commission are working together to develop a plan for the selection of 3G spectrum to be executed as soon as possible. Additionally, allocation decisions for defense-related spectrum are being reassessed in light of the events of September 11, 2001.

In FY 2001, four auctions of spectrum were held, and the FCC recorded $16.9 billion in net winning bids. This amount represents the net winning bids excluding possible defaults and the costs to the FCC of $67.5 million. This amount is recognized as revenue when a final payment date is established by a Public “prepared to grant” notice rather than when the auction is held or cash is received. The FY 2002 budget estimated that a total of $1.6 billion in auction receipts would be generated from the anticipated auctions in FY 2001.

In FY 2000, the FCC increased the amount of spectrum available to the public for unlicensed services. Unlicensed services are those services made available through rulemaking (e.g., low power TV) to allow and encourage the introduction of new services, particularly in rural or underserved areas. Eight (8) auctions were held, and the FCC recorded $1.3 billion in net winning bids. This amount represents the net winning bids excluding possible defaults and the costs to the FCC of $45.4 million.

There are several reasons for the increase in costs for the spectrum auction program from $45.4 million to $67.5 million. Among the reasons for the increases in FY 2001 were: personnel compensation and benefits due to increased accuracy in cost reporting for commission-wide on board staff as well as additional direct staff increases to support the program; increases to rent for Portals, telephone service, utilities, etc. associated with the increase in FTE support; supplies, equipment and security costs to house and support the Revenue Accounting and Management Information System (RAMIS), the Commission Registration System (CORES), increased costs for loan maintenance, storage and support as well as contract costs for full loan servicing by a major financial services firm; as well as licensing litigation costs, physical and computer security, additional audit related costs, including enhanced inventory control support, audit travel, and contract support services.

Financial Management – Legal Compliance, Systems, and Controls

Legal Compliance

The FCC, like other Federal agencies, is required to comply with statutes and regulations related to appropriations, safety and health, and employment. Compliance with such requirements is the responsibility of FCC management. The Office of Managing Director has responsibility for implementing accounting and financial policies, systems, and reports; improving the reliability of financial information; implementing debt collection; and implementing financial management legislation including the following:

- ✓ Prompt Payment Act of 1982
- ✓ Federal Managers' Financial Integrity Act of 1982
- ✓ Cash Management Improvement Act of 1990
- ✓ Federal Credit Reform Act of 1990, as amended
- ✓ Chief Financial Officer's Act of 1990
- ✓ Government Performance and Results Act of 1993
- ✓ Government Management Reform Act of 1994
- ✓ Federal Financial Management Improvement Act of 1996
- ✓ Debt Collection Improvement Act of 1996

In the FCC's efforts to achieve compliance with applicable legislation, it is necessary to have effective management and system controls in place. The FCC has established formal policies and procedures regarding the processing, maintaining, and reporting of financial information. The FCC has updated its policies and procedures for financial-related sections (e.g., Accounts Receivable, Budget, Revenue, Administrative Expenses). Revisions to remaining sections, including policies and procedures for the preparation of the financial statements and performance measures, are currently in progress. Although the FCC has made significant improvement with regards to its management controls, additional improvement is needed as indicated by the results of the FY 2000 financial statement audit.

Systems

The Financial Systems Operations Group, within the Office of the Managing Director, oversees maintenance support for the system controls of the financial systems. The following summarizes several significant financial systems:

- ✓ Federal Financial System
- ✓ Revenue & Accounting Management Information System
- ✓ Collections System
- ✓ Loan System
- ✓ Management Cost Accounting System

The Federal Financial System (FFS) is a Commercial Off-the-Shelf (COTS) software package, which serves as the FCC's central accounting system. FFS runs on a mainframe located at the Department of the Interior's (DOI) National Business Center (NBC) in Denver, Colorado. The DOI NBC provides system maintenance support through a cross-servicing agreement. FCC staff within the office of the Associate Managing Director – Financial Operations (AMD-FO), performs system operations, maintenance of system tables, and security administration for the FFS application. The system is supplemented by a data warehouse, which provides ad hoc reporting capabilities.

The Revenue Accounting and Management Information System (RAMIS) is a COTS software package modified to handle all of the collections, accounting, and loan management specific to the FCC. It is designed to interface with FCC's central accounting system, FFS, and licensing systems throughout the Commission. Once all reporting modules are complete, all collection activity of the FCC, including civil monetary penalties and loans, will be recorded and tracked in RAMIS. RAMIS will also record the collection of receipts, produce dunning letters for past due accounts, and issue reminders to forward account forfeitures to the Office of General Counsel (OGC) for referral to the Department of Justice (DOJ) for collection. Implementation of RAMIS is intended to assist the FCC in achieving better system integration, as well as to meet system requirements established by the Joint Financial Management Improvement Program (JFMIP). As of the date of the FY 2001 audit, the FCC was still in the conversion phase of implementation and no audited financial activity related to the loan program was recorded in the RAMIS system.

The Collections System is a custom-built database application designed to store and display all the collections accounting for the FCC. It is designed to interface with licensing and other systems throughout the Commission. In FY 2001, the FCC also began converting the collections system used to track civil monetary penalties with the status of Notices of Apparent Liability (NALs) from a COTS software package to RAMIS as the system of record. From June 30, 2001, until September 30, 2001, both of these systems ran parallel.

The Nortridge Loan System (NLS) is a COTS software package designed and developed for lenders of all types and sizes. NLS incorporates the latest in client-server and object-oriented technology along with standard, familiar, Windows operation to provide an ideal solution for lending operations. The FCC currently uses NLS to record payments received by licensees under the Spectrum Auction Direct Loan Portfolio program.

The AMD-FO is developing the requirements for a streamlined automated MCAS that will be in compliance with high-level core financial system requirements for cost and budget management as prescribed by the JFMIP. MCAS will provide a financial management system that offers FCC management an increased level of detail concerning the cost of doing business. Financial management data and information, which is accurate, timely, and consistent across FCC bureaus and offices, will be available simultaneously to program managers, financial managers and budget officials. MCAS will support budget and cost control, performance measurement, fee and price determinations for reimbursements, program evaluations, and economic decisions. MCAS will use JFMIP-certified COTS managerial cost accounting and budget formulation and execution applications and related implementation support services.

Not included as part of its systems, but still an important financial management tool for FCC management in FY 2001, are the Loan Model Spreadsheets used to calculate loan balances on the FCC's credit reform loans. On a monthly basis, the spreadsheets are updated with the monthly collections from the NLS. These spreadsheets have been maintained by an outside contractor throughout the course of the year and have served as the basis for numbers used in the calculation of the FCC's subsidy reestimate and the loan subsidiary records. Ultimately, these spreadsheets will be replaced by an outside loan servicing system.

The FCC has contracted with a major financial services firm to provide loan servicing for the portfolio. The FCC has begun porting the loan data to its new service provider, with loan servicing implementation scheduled for December 2001. During the transition period, the

FCC prepared the loan processing policies and procedures to be performed by the FCC and the new loan servicer. Additionally, the FCC tasked the service provider with providing a document management, imaging and retrieval system. A password protected system, it can be accessed via the Internet. The system further allows users to electronically store, retrieve, copy and correlate data and images directly from their desktop. The FCC currently has the ability to search and retrieve loan documents from their desktops, thereby eliminating the need to manually store and research files.

Internal Controls

The FCC has numerous internal controls over financial reporting to obtain reasonable assurance that the financial statements do not contain material misstatement, and fairly present information related to assets, liabilities and net position. As noted in the preceding section, transactions are executed in accordance with budgetary and financial laws, consistent with the FCC statutory requirements, and are recorded in accordance with Federal accounting standards. Additionally, assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud. Further, the FCC internal controls exist to assure the existence and completeness of the performance measures, as required by OMB Bulletin 01-09 (*Form and Content of Agency Financial Statements*).

While the FCC received an unqualified opinion in FY 2000, auditors found material weaknesses in the following five areas:

1. Financial Reporting
   a. integrating financial management systems
   b. establishing and maintaining an adequate audit trail
   c. correcting and updating financial system setup and posting model definitions
   d. recording activities timely and preparing and analyzing financial activity
   e. formalizing financial reporting processes and responsibilities
   f. incorporating future effects in the Management's Discussion & Analysis (MD&A)
2. Cost Accounting System
3. Universal Service Fund and Telecommunications Relay Service Fund Financial Reporting
4. Loans Receivable and Related Accounts
   a. improving loan subsidiary ledger system
   b. reconciling general ledger to the subsidiary ledger balances
   c. implementing direct loan system to account for all events in a loan cycle
   d. improving loan documentation
5. Information Technology
   a. creating a comprehensive security plan in compliance with OMB Circular A-130
   b. improving controls to protect FCC information
   c. accelerating efforts to develop and test contingency plans

Additionally, the auditors identified the following reportable conditions:

1. Review and Finalize Written Internal Control Documentation for Financial and Administrative Operations
2. Improve Internal Controls over Certain Accounts Receivable

3. Improve Supporting Documentation and Controls on Property and Equipment
4. Improve Controls over Accounts Payable
5. Conduct OMB Circular A-127 and A-130 Reviews

In accordance with the Federal Managers' Financial Integrity Act (FMFIA), the FCC has identified corrective actions during FY 2001 for material weaknesses and reportable conditions related to internal controls over: collections; auction loans; procedures for preparing financial statements; Universal Service Fund financial reporting; management of Federal information resources; protection of data and information; ability to identify non-payment of funds; property, plant, & equipment; accounts payable, undelivered orders, and net position.

The FCC also identified corrective action plans for non-conformances including: requirements for billings and collections; identification of non-payers of fees; maintenance of auction loan accounts under credit reform; cost reporting system to meet management information needs; interface between financial system and property subsidiary system.

Possible Future Effects on the FCC – Looking Ahead

The Commission has identified certain demands, risks, uncertainties, events, conditions, and trends that may impact the FCC's ability to achieve its goals and objectives in the future. For example, a number of factors will affect the Commission's ability to promote competition and deregulation. The fortitude with which the FCC and the states enforce the pro-competitive mandates of the 1996 Act will continue to be a significant factor. Whether or not litigation delays the introduction or implementation of key FCC and state decisions is another factor.

A range of additional external factors may affect the continued development of competition in communications markets. First, convergence-driven competition depends heavily *on investments in new technology by incumbent and new communications providers*. To date, traditional wireline telephone service providers, cable operators, wireless firms, and satellite companies have made massive investments in new networks that do or will allow:

- ✓ telephone companies to offer high-speed Internet and possibly video service,
- ✓ cable operators to offer phone service and high-speed Internet,
- ✓ wireless companies to offer phone service reliable and inexpensive enough to compete for basic local voice telephony, and
- ✓ satellite companies to offer television, radio and high-speed Internet.

Should the pace of investment in these networks diminish, the competition in these areas likely will be slower to develop.

Second, significant *technological uncertainty* remains for many new "converged" technologies. For example, although the carriage of voice traffic over packet-based, Internet Protocol (IP) networks promises significant new competitive entry into the local and long distance voice markets, "IP telephony" technology is still developing. Also, the use of shared "tree-and-branch" networks, such as hybrid fiber-coax cable networks for voice or data service, similarly poses technical obstacles at moderate to high penetration levels. Until the full reliability of cable networks can be demonstrated, the competitive impact of cable entry into telephone and data markets may be delayed. As a third example, a significant factor in the development of robust competition in the broadband access market is the slow rate of technological development of various "xDSL" (digital subscriber lines which provide high-speed data transmission) technologies that will be used to offer high-speed service over copper telephone loops. Each of these, as well as many other technological factors, could affect the rate at which competition develops across communications markets.

A third category of uncertainty is the degree of *consumer demand for new communications services*. Many new services, such as high-speed Internet access, digital television, wireless data service, and satellite-delivered services will continue to be deployed by service providers, and many market analysts forecast strong consumer adoption rates. However, the breadth and depth of long-term consumer demand for these new services remain unknown. The business models of many new competitors hinge on combining multiple existing and new services on a single service delivery platform. For example, the profitability of companies that are "overbuilding" new hybrid fiber-coax networks to compete with cable and telephone incumbents depends on selling customers bundles of service including multichannel digital video, high-speed Internet access, and telephony. Only by combining revenue streams can new entrants, saddled with heavy network construction costs, compete with incumbents operating existing networks. If consumer adoption of new services fails to meet expectations, competition could be slower to develop.

Fourth, the prospects for competitive communications markets are significantly affected not only by national developments, but also by *developments in world markets*. The opportunities for increased competition in the United States can be more fully realized if other countries join us in fostering competition in their communications marketplaces. Market access restrictions in foreign countries significantly impede U.S. companies' ability to compete on a global scale. Specifically, the FCC's vision of fully competitive communications markets in the U.S. is contingent to some degree on whether other nations also establish the necessary conditions for deregulation, competition, and increased private investment in their communications infrastructure. The FCC's success will depend on vigorous enforcement of the market access commitments set forth in the 1997 World Trade Organization (WTO) Agreement on Basic Telecommunications Services.

The Commission's ability to carry out its vision also is largely dependent on a fifth category of uncertainty—*adequate resources to carry out critical activities*. In many cases, the FCC will need to redeploy existing budget and staff resources to address changing priorities. The planned implementation in FY 2002 of new systems for managerial cost accounting, budget formulation and execution, and FTE tracking and reporting will improve the Commission's ability to appropriately allocate resources and to accurately link resources to performance. Moreover, for the FCC to fulfill its congressional charge, it will write and execute a new business plan built along the following four dimensions:

- ✓ a clear substantive policy vision, consistent with the various communications statutes and rules, that guides FCC deliberations;
- ✓ a pointed emphasis on management that builds a strong team, produces a cohesive and efficient operation, and leads to clear and timely decisions;
- ✓ an extensive training and development program to ensure that the FCC possesses independent technical and economic expertise; and

- ✓ an organizational restructuring to align the FCC institution with the realities of a dynamic and converging marketplace.

Some of these initiatives will require Congressional approval and all will require continued adequate funding. The FCC's success is tied directly to the Commission's ability to maintain critical staffing levels and adequate funding.

Sixth, the Commission's ability to achieve its goals and objectives in the future will be affected by *the unpredictable*. Factors outside the FCC's control may impact its ability to fulfill its mission, from possible future actions by the Congress, changing Federal laws that may affect FCC's responsibilities and workload, to national tragedies such as that which occurred on September 11, 2001.

And finally, relative to the USF, on Feb. 14, 2002, the Commission adopted a Notice of Proposed Rulemaking (NPRM) concerning changes to the contribution methodology for federal universal service support mechanisms. The NPRM seeks comment on changing the methodology from one based on end-user telecommunications revenue to one based on connections. The NPRM also seeks comment on whether a connection-based assessment approach would ensure the long-term stability, fairness, and efficiency of the universal service contribution system in a dynamic telecommunications marketplace. Also, a number of matters are under review at the FCC involving disbursements from the USF to a limited number of service providers participating in the schools and libraries program. In the opinion of FCC management, it is unlikely that all matters under review will result in legal proceedings or other actions and as such an estimated amount of recovery cannot be determined at this time. During FY 2001 the USF recovered $1.3 million as a result of the above mentioned reviews.

Cross-Cutting Functions of the Commission

The Commission routinely interacts with a number of other Federal agencies. For example, the FCC:

- ✓ coordinates radio antenna and tower proposals with the Federal Aviation Administration (FAA) to prevent interference and to ensure the safety of life and property;
- ✓ measures spurious radio signal emissions in cooperation with the Environmental Protection Agency (EPA) to monitor public risks associated with radiation;
- ✓ coordinates with the U.S. Customs Service (USCS) concerning the import of electronic devices;
- ✓ coordinates with the NTIA to ensure the effective management of the public and private spectrum; and,
- ✓ works particularly closely with the FTC on consumer issues, e.g., unscrupulous practices such as "slamming" and "cramming" practiced by some service providers.

In addition to coordination efforts with other Federal agencies, the FCC must also seek the input of state and local government to achieve a truly national telecommunications policy. The 1996 Act set the groundwork for this goal, and the Commission is fulfilling its role in establishing the rules for opening communications markets across the country, in partnership with state regulators. The Commission will continue to work with state and local agencies, and toward this end the FCC has instituted a Local and State Government Advisory Committee to share information and views on many critical communications issues.

Highlights of the Financial Statements

Future Effects of Current Demands

Since 1994, the FCC has conducted auctions of licenses for electromagnetic spectrum. These auctions are open to any eligible company or individual that submits an application and upfront payment, and is found to be a qualified bidder by the Commission. Qualified bidders are those applicants whose FCC Form 175 applications have been accepted for filing and that have timely submitted upfront payments sufficient to make them eligible to bid on at least one of the licenses for which they applied. In Auction 35 a total of 422 licenses covering 195 markets were offered for C and F Block Broadband PCS in January 2001.

In Auction 35, the FCC auctioned spectrum associated with the licenses won by Nextwave and for which the company defaulted on its payments. Under the Commission's rules, Nextwave's default resulted in automatic cancellation of its licenses. In June, 2001, the U.S. Court of Appeals for the District of Columbia Circuit held that Section 525 of the Bankruptcy Code precluded FCC from canceling Nextwave's licenses.

In October 2001, the Government asked the Supreme Court to review the ruling by the D.C. Circuit. On March 4, 2002, the Supreme Court granted the Government's petition for certiorari from the Court of Appeals decision. The FCC plans to prosecute vigorously its case to the Supreme Court. The Supreme Court is expected to hear oral arguments in the case next term.

On January 4, 2002, the Auction 35 winning bidders for spectrum associated with Nextwave's licenses asked the FCC to refund the approximately $3.1 billion in down payments that the agency has been holding since February 2001. On March 26, 2002, the Commission issued an order to return 85% of approximately $3.1 billion in down payments, retaining amounts equal to 3% of each winning bid, the minimum bidder default payment under the Commission's rules. The Commission stated that the FCC will keep the related Auction 35 licenses in a pending status until final resolution of the litigation and will require the winning bidders to pay their full bids if the U.S. Supreme Court rules in the FCC's favor.

Results of Financial Position and Operations

A significant aspect of the FCC's operations is its Spectrum Auction Direct Loan Portfolio (Spectrum Auction) program. The net loans receivable, which represent installments due from loans under the Spectrum Auction program, is approximately $5.9 billion of the total assets of the Commission of approximately $13.1 billion.

The FCC is required to annually adjust its allowance for losses on the credit portfolios based on the most current performance information. In accordance with OMB guidance, the FCC calculates its subsidy reestimate based on the most recent economic conditions and technical assumptions available.

During FY 2001, at OMB's request, the FCC completed four subsidy reestimates resulting in an overall upward subsidy adjustment of $2.7 billion. The first reestimate performed in the December, 2000 was for performance data through September 30, 2000 and generated a downward adjustment of $3.4 billion that was reported in the FY 2000 financial statements. The second subsidy reestimate resulted in a $6.2 billion downward adjustment based on the assumption that FCC would receive a greater than 100 percent recovery rate on its C-block re-auctioned licenses in FY 2001. The third subsidy reestimate resulted in an upward adjustment of $8.8 billion after the potential for recovery above 100 percent was impaired by the loss of a court case concerning a significant portion of the C-block licenses being re-auctioned. The last subsidy reestimate was completed in December, 2001 for performance data through September 30, 2001. The result of this reestimate was an upward adjustment of $91.7 million that was reported in the FY 2001 financial statements, but will not be reported in the budget until FY 2002. The average subsidy rate (the subsidy cost expressed as a percent of the original loan amount) decreased from 52% in FY 2000 to 44% in FY 2001.

The most significant components of the subsidy cost historically have been the FY 1997 C and F Block installment loans. Based on the FY 2000 and FY 2001 reestimates, the FY 1997 C and F Block account for 97% of the Spectrum Auction licenses. The C Block FY 1997 cohort subsidy rate for the reestimate in FY 2001 resulted in a change from 54% for FY 2000 to 50% in FY 2001 and a subsidy cost change from $4.9 billion in FY 2000 to $4.5 billion in FY 2001. The F Block FY 1997 cohort subsidy rate for the reestimate in FY 2001 resulted in a change from 28% for FY 2000 to –53% in FY 2001 and a subsidy cost change from $137 million in FY 2000 to -$263 million in FY 2001. The F Block 1997 cohort subsidy reestimate decreased primarily because actual defaults in FY 2001 were lower than projected defaults by approximately $11 million. The Narrowband subsidy rate for the first reestimate in FY 2001 resulted in a change from 35% for FY 2000 to 41% in FY 2001, and a subsidy cost change from $42.4 million in FY 2000 to $49.4 million in FY 2001. Although the IVDS loan portfolio was restructured in FY 2001, the result was a net increase in the subsidy cost of less than $1 million.

The FCC's FY 2002 subsidy reestimate shows a $128.8 million increase in the Spectrum Auction program subsidy cost, primarily due to the timing of recoveries on previously defaulted Nextwave loans. Recoveries on Auction 35 related licenses are projected to occur in mid-FY 2002 for non-Nextwave re-auctioned licenses and at the end of FY 2002 for the Nextwave re-auctioned licenses. The subsidy cost increased in the Narrowband and Interactive Video and Data Service (IVDS) reestimates for FY 2002. The Narrowband subsidy cost increased due to more conservative assumptions related to the recovery potential on non-paying loans.

In addition to Loans Receivable, FCC's assets include its Fund Balance with Treasury and Cash and Other Monetary Assets. The $1.7 billion increase over FY 2000 in Fund Balance with Treasury is primarily the net result of a $3.5 billion collection in deposit funds related to Auction 35 and a $1.8 billion transfer out to the Department of Treasury related to the first downward reestimate made at the end of FY 2000. The $1.5 billion increase over FY 2000 in Cash and Other Monetary Assets is attributed to a change in USF investments. During FY 2001, USF changed banking institutions and began investing most of its funds in four money market funds, instead of individual securities that would be classified as investments.

FCC's most significant liability accounts include Liability for Borrowings from Treasury, and Deferred Revenue. The $3.2 billion increase in Deferred Revenue over the FY 2000 balance is also primarily attributed to Auction 35 collections applied to first and second downs, most of which were collected in FY 2001.

The net cost of FCC operations for FY 2001 was $8.5 billion, which was allocated to the five programs of the FCC: Consumer Information Service, Enforcement, Competition, Licensing, and Spectrum Management; Credit Reform; and the USF. The $12.8 billion increase in net costs over FY 2000 amounts is related to the FY 2001 subsidy reestimates and the inclusion of the total operations of the USF.

The FCC's budget authority in FY 2001 was $24 billion, and an additional $5.3 billion for USF, which in total represents a $27.4 billion increase over FY 2000. The increase is a result of the combination of borrowing authority used for downward reestimates of $12 billion and the appropriation received for the upward adjustments of $11.5 billion, and the inclusion of USF in Budgetary Resources.

Another significant dimension of the financial statements is the USF. The Fund continued to grow over the past year, collections have outpaced the new support requirements of carriers. The Fund has met all obligations during the year. Management expects the Fund to continue to meet all obligations presented.

The USF had a total distribution of $4.9 billion in fiscal year 2001. Net collections ($5.3 billion) exceeded the total distributed by $344 million. Those collections when added to previous collections and receivables constitute the total net assets of the Fund, $2.8 billion. Those assets are sufficient to meet the total liabilities of the Fund and consideration is underway at the FCC of the best way to reduce the growing fund balance in this program.

Limitations of the Financial Statements

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

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

FINANCIAL STATEMENTS

Federal Communications Commission
Consolidated Balance Sheets
As of September 30, 2001 and 2000
(dollars in thousands)

	2001	2000
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 4,058,202	$ 2,207,665
Accounts Receivable, net (Note 5)	-	39
Investments (Note 4)	-	1,297,611
Total Intragovernmental	4,058,202	3,505,315
Cash and Other Monetary Assets (Note 3)	1,602,254	49,323
Investments (Note 4)	652,571	734,948
Accounts Receivable, net (Note 5)	773,078	502,922
Interest Receivable	7,889	9,873
Loans Receivable, net (Note 6)	5,972,496	9,592,520
Forfeited Property (Note 7)	-	61
Property, Plant, and Equipment, net (Note 8)	35,318	39,399
Total Assets	13,101,808	14,434,361
LIABILITIES		
Intragovernmental		
Liability for Borrowings from Treasury (Note 9)	$ 6,109,604	$ 5,307,271
Other Liabilities (Note 13)	851,592	346,160
Total Intragovernmental	6,961,196	5,653,431
Accounts Payable (Note 10)	394,621	409,629
Deferred Revenue (Note 12)	3,304,671	69,982
Payable to Providers (Note 14)	-	2,052,849
Other Debt (Note 11)	125,274	125,274
Other Liabilities (Note 13)	37,319	55,908
Accrued Unfunded Leave	13,357	12,548
Total Liabilities	10,836,438	8,379,621
Commitments and Contingencies (Note 21)		
NET POSITION		
Unexpended Appropriations (Note 16)	$ 24,012	$ 6,122,690
Cumulative Results of Operations	2,241,358	(67,950)
Total Net Position	2,265,370	6,054,740
Total Liabilities and Net Position	$ 13,101,808	$ 14,434,361

The accompanying notes are an integral part of these statements
(see Note 27 for comparative statement modifications)

Federal Communications Commission
Consolidated Statements of Net Cost
For the Years Ended September 30, 2001 and 2000
(dollars in thousands)

PROGRAM COSTS:	**2001**	**2000**
Licensing		
Program Costs		
Intragovernmental	$ 19,209	$ 8,540
With the Public	59,158	38,001
Less: Earned Revenues	(86,901)	(60,425)
Net Program Costs	(8,534)	(13,884)
Competition		
Program Costs		
Intragovernmental	$ 21,146	16,702
With the Public	65,149	74,323
Less: Earned Revenues	(94,876)	(118,177)
Net Program Costs	(8,581)	(27,152)
Enforcement		
Program Costs		
Intragovernmental	$ 18,100	$ 12,962
With the Public	55,734	57,679
Less: Earned Revenues	(80,553)	(91,713)
Net Program Costs	(6,719)	(21,072)
Consumer Information Service		
Program Costs		
Intragovernmental	$ 3,685	$ 2,665
With the Public	11,166	11,858
Less: Earned Revenues	(16,493)	(18,854)
Net Program Costs	(1,642)	(4,331)
Spectrum Management		
Program Costs		
Intragovernmental	$ 6,598	
With the Public	20,126	
Less: Earned Revenues	(29,509)	
Net Program Costs	(2,785)	
Universal Service Fund		
Program Costs		
Intragovernmental	$ -	
With the Public	4,980,967	39,608
Less: Earned Revenues	-	(39,608)
Net Program Costs	4,980,967	-
Credit Reform		
Program Costs		
Intragovernmental	$ 1,214,175	1,360,218
With the Public	7,965,866	(3,360,066)
Less: Earned Revenues	(5,603,670)	(2,270,096)
Net Program Costs	3,576,371	(4,269,944)
Total Net Program Costs	$ 8,529,077	$ (4,336,383)
UNASSIGNED COSTS:		
Imputed Costs	9,551	9,755
Depreciation	11,662	11,256
Telecommunications Development Fund	19,852	-
Other Expenses	1,036	51
Total Unassigned Costs	$ 42,101	$ 21,062
UNASSIGNED REVENUE:		
Auction Interest Revenue	$ (19,852)	$ -
Net Cost of Operations	$ 8,551,326	$ (4,315,321)

The accompanying notes are an integral part of these statements
(see Note 27 for comparative statement modifications)

Federal Communications Commission
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2001 and 2000
(dollars in thousands)

	2001	2000
Net Cost of Operations	$ 8,551,326	$ (4,315,321)
Financing Sources:		
Appropriations Used (Note 18)	3,469,300	44,625
Universal Service Fund Nonexchange Revenue	5,352,740	
Donations	88	
Imputed Financing	9,551	9,755
Transfers In	5,964	94
Transfers Out	(30,017)	(28,141)
Downward Subsidy Re-estimate	-	(4,282,602)
Loss	(107)	(125,424)
Total Financing Sources	8,807,519	(4,381,693)
Net Results of Operations before Change in Accounting Principle	256,193	(66,372)
Cumulative Effect of Change in Accounting Principle (Note 28)	2,052,850	
Net Results of Operations	2,309,043	(66,372)
Prior Period Adjustments (Note 19)	2,589	(1,760,291)
Cancelled Appropriations	(2,323)	(777)
Change in Cumulative Results of Operations	2,309,309	(1,827,440)
Increase/(Decrease) in Unexpended Appropriations	(6,098,679)	6,093,786
Change in Net Position	(3,789,370)	4,266,346
Net Position - Beginning of Period	6,054,740	1,788,394
Net Position - End of Period	$ 2,265,370	$ 6,054,740

The accompanying notes are an integral part of these statements
(see Note 27 for comparative statement modifications)

Federal Communications Commission
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2001 and 2000
(dollars in thousands)

Budgetary Resources:	**2001**	**2000**
Budget Authority	$ 29,560,547	2,125,225
Unobligated Balances - Beginning of Period	3,810,864	70,817
Spending Authority from Offsetting Collections	25,554,843	2,912,267
Adjustments	(26,095,268)	(583,620)
Total Budgetary Resources	$ 32,830,986	4,524,689
Status of Budgetary Resources:		
Obligations Incurred	$ 30,494,885	2,665,943
Unobligated Balances - Available	2,295,950	1,822,928
Unobligated Balances - Not Available	40,151	35,818
Total Status of Budgetary Resources	$ 32,830,986	4,524,689
Outlays:		
Obligations Incurred	$ 30,494,885	2,665,943
Less: Spending Authority from Offsetting Collections and Adjustments	(25,558,950)	(2,940,885)
Obligated Balance, net - Beginning of Period	45,148	56,665
Less: Obligated Balance, net - End of Period	(63,770)	(45,148)
Total Outlays	$ 4,917,313	(263,425)

The accompanying notes are an integral part of these statements
(see Note 27 for comparative statement modifications)

Federal Communications Commission
Consolidated Statements of Financing
For the Years Ended September 30, 2001 and 2000
(dollars in thousands)

Obligations and Nonbudgetary Resources	**2001**	**2000**
Obligations Incurred	$ 30,494,885	$ 2,665,943
Less: Spending Authority for Offsetting Collections and Adjustments	(25,554,810)	(2,912,267)
Receivables from Federal Sources	3	1,794,483
Change in Unfilled Customer Orders	(1)	(1)
Recoveries of Prior Year Obligations	(4,108)	(28,607)
Financing Imputed for Cost Subsidies	9,551	9,755
Transfers in/out without Reimbursement	-	(1,500)
Exchange Revenue not in the Budget	(130,376)	(281,515)
Other	(893)	-
Total Obligations as Adjusted, and Nonbudgetary Resources	$ 4,814,251	$ 1,246,291
Resources That Do Not Fund Net Cost Of Operations		
Change in Amount of Goods, Services, and Benefits Ordered But Not Yet Received or Provided	$ (26,448)	$ 5,331
Costs Capitalized on the Balance Sheet	(6,516)	(619)
Collections that decrease/increase credit program receivables/liabilties	9,243,238	(1,137)
Financing Sources that Fund Costs of Prior Periods	(10,664)	(1,821,450)
Other	876	651,038
Total Resources That Do Not Fund Net Cost of Operations	9,200,486	(1,166,837)
Costs That Do Not Require Resources		
Depreciation and Amortization Expense	$ 11,662	$ 11,284
Subsidy Amortization	591,430	-
Bad Debts	40,197	52
Changes in Other Accrued Liabilities	70	1,255
Loss on Future Revenues	(177)	(125,273)
Downward Subsidy Re-estimate	(6,236,616)	(4,282,602)
Total Costs That Do Not Require Resources	(5,593,434)	(4,395,284)
Financing Sources Yet to be Provided (Note 25)	$ 130,023	$ 509
Net Cost of Operations	$ 8,551,326	$ (4,315,321)

The accompanying notes are an integral part of these statements
(see Note 27 for comparative statement modifications)

Federal Communications Commission
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2001 and 2000

(dollars in thousands)

Revenue Activity:	**2001**	**2000**
Sources of Cash Collections:		
Spectrum	$ 1,507,584	$ 798,725
Fines and Forfeitures	52,916	19,965
Telecommunications Development Fund	19,886	2,531
Contributions & Investment Interest		4,539,259
Total Cash Collections	1,580,386	5,360,480
Accrual Adjustment	129,499	64,437
Total Custodial Revenue	1,709,885	5,424,917
Disposition of Collections:		
Transferred to Others:		
U.S. Treasury	$ (1,077,197)	$ (167,994)
USF Providers		(4,029,528)
Spectrum Deposit		(24,476)
Telecommunications Development Fund		(2,531)
Total Transferred to Others	(1,077,197)	(4,224,529)
(Increase)/Decrease in Amounts Yet to be Transferred	(543,540)	(679,422)
Refunds and Other Payments (Note 24)	(1,771)	(475,559)
Retained by the Reporting Entity (Note 24)	(87,377)	(45,407)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements
(see Note 27 for comparative statement modifications)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands unless otherwise stated)

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The Federal Communications Commission ("FCC" or "Commission") is an independent United States government agency, directly responsible for reporting to Congress. The FCC was established by the Communications Act of 1934, as amended, and is charged with regulating interstate and international communications by radio, television, wire, satellite and cable. The FCC's jurisdiction covers the 50 states, the District of Columbia, and the U.S. possessions.

The FCC is directed by five Commissioners appointed by the President of the United States and confirmed by the Senate for five-year terms, except when filling an unexpired term. The President designates one of the Commissioners to serve as Chairman. Only three Commissioners may be members of the same political party. None of them can have a financial interest in any Commission-related business.

The FCC's operations are divided among the following bureaus and offices: International, Cable Services, Engineering and Technology, Mass Media, Common Carrier, Wireless Telecommunications, Consumer Information, and Enforcement. In addition, two outside entities, the Universal Service Administrative Company (USAC) and the National Exchange Carrier Association (NECA) administer the activities of the Universal Service Fund Program (USF Program). The USF Program includes the Universal Service Fund (USF), administered by USAC, and the Telecommunications Relay Service Fund (TRS), administered by NECA. The USF consists of four universal service support mechanisms that were established pursuant to Section 254 of the Communications Act of 1934, as amended. The USAC was appointed by the FCC to administer the four USF support mechanisms: high cost areas, low-income consumers, schools and libraries, and rural health care providers. It also submits projections of demand and administrative expenses for each of these mechanisms and quarterly USF contribution data to the FCC. The TRS was established by the Americans with Disabilities Act of 1990, Title IV and provides telephone service to the blind and physically handicapped. The NECA is the appointed administrator for the TRS Fund.

Other components of the FCC, as defined by Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 *Entity and Display*, include the programs administered by the North American Numbering Plan Administrator (NANPA) and the Local Number Portability Administrator (LNPA). These programs are not accounted for in the FCC financial statements for materiality reasons. The administrators and billing and collection agent serve in terms of years and are required to be non-governmental entities under FCC regulations (47 C.F.R. §52.12, 52.21h). Cost recovery and allocation measures are provided for in FCC regulations. However, revenues to support the program are collected by the administrator or the billing and collection agent (47 C.F.R. §52.16, 52.17, 52.32, 52.33).

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

Basis of Accounting

The consolidated financial statements have been prepared from the accounting records of FCC in conformity with Generally Accepted Accounting Principles (GAAP), and standards specified by the OMB in OMB Bulletin No. 97-01, *Form and Content of Federal Agency Financial Statements,* as amended and applicable portions of OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements* (OMB Form and Content). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was designated the official accounting standards-setting body for the Federal government by the American Institute of Certified Public Accountants. The consolidated financial statements are different from the financial reports, also prepared by FCC pursuant to OMB directives used to monitor and control FCC's use of budgetary resources.

Basis of Presentation

The accompanying consolidated financial statements have been prepared to report the financial position, results of operations, changes in net position, budgetary resources, custodial activity, and financing of the FCC as of September 30, 2001 and 2000 and for the periods October 1, 2000 through September 30, 2001 and October 1, 1999 through September 30, 2000. The consolidated financial statements have been prepared from the books and records of the FCC in accordance with OMB Form and Content and GAAP of the Federal government.

Fiscal Year 2001 is the first year for which comparative financial statements are required in accordance with OMB Form and Content. The FCC has made several presentation changes to the FY 2000 Financial Statements in order to present them comparatively in these statements. See Note 27 for further discussion.

In addition to the comparative changes mentioned above, the FCC implemented a change in accounting principle with respect to its accounting for the USF Program. The change in FY 2001 resulted in the recognition of revenue and expenses on the Statements of Net Cost and Changes in Net Position that were reported in FY 2000 on the Statement of Custodial Activity. The effects of the change on prior years are shown as a cumulative change in accounting principle on the FY 2001 Statement of Changes in Net Position. Details of the change are disclosed in Note 28.

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

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

Basis of Presentation (continued)

Except for the programs administered by the NANPA and the LNPA, the financial statements include all funds and programs for which the FCC is responsible. All significant intra-entity balances and transactions have been eliminated in consolidation. A distinction has been made in the financial statements between asset and liability balances arising from transactions with other Federal government agencies and all other asset and liability balances. These balances are specifically identified under the heading Intragovernmental.

Assets

Assets are tangible or intangible items owned by the FCC that have probable economic benefits that can be obtained or controlled by the FCC. The Notes to the Consolidated Balance Sheet present assets in one of two categories: entity or non-entity. Entity assets are those assets which the reporting entity holds and has the authority to use in its operations. Non-entity assets are assets the entity holds but does not have the authority to use in its operations.

Fund Balance with Treasury

The FCC maintains seven types of accounts with the U.S. Treasury: general, revolving, deposit, special, receipt, trust and clearing. The general and revolving accounts may be used by the FCC to finance expenditures depending on budgetary availability. The deposit accounts are used to hold funds received through spectrum auctions, international telecommunications settlements, or regulatory fee monies until they can be distributed to the proper account. The special account is used to track USF and TRS funds held outside of the U.S. Treasury. The receipt accounts are used to record collections made by the FCC on behalf of the Department of the Treasury's General fund. The trust account was established in FY 2001 to track funds donated for a special study on noise and interference affecting the performance of current and proposed communications systems, and the clearing account is used to clear unidentified collections and reimbursements throughout the year.

Cash and Other Monetary Assets

Cash and Other Monetary Assets represents cash on deposit at several commercial banks and highly liquid securities with an original maturity of three months or less. The commercial accounts are in the form of money market funds that can easily be drawn against. In the case of USF and TRS, interest proceeds are reinvested and remain available for use. In the case of the FCC, these funds represent third party deposits made pursuant to the FCC Spectrum Auction activities. Upon conclusion of individual auctions, funds on deposit are offset against amounts due from successful bidders or returned to unsuccessful bidders. The funds are held in the Telecommunications Development Account (TDA), an interest bearing account, for subsequent

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

Cash and Other Monetary Assets (continued)

transfer to the Telecommunications Development Fund (TDF) during and for a 45 day period after the close of a given auction. These funds represent a liability to the FCC until such time as they are applied toward a valid spectrum license, returned to the depositor, or transferred to the TDF.

The 1996 Act established the TDF, the purpose of which is to: (1) promote access to capital for small businesses in order to enhance competition in the telecommunications industry; (2) stimulate new technology development, and promote employment and training; and (3) support universal service and promote delivery of telecommunications to underserved rural and urban areas. Pursuant to 47 U.S.C. Section 309(j)(8), the FCC is authorized to transfer interest accrued on deposits from the TDA to the TDF.

Cash on deposit typically exceeds federally insured limits. The Federal Reserve requires the bank to collateralize all funds on deposit from the FCC at 110%.

Accounts Receivable

Accounts receivable are recorded net of any related allowance for doubtful accounts. The allowance is determined based on an analysis of aged receivables and individual accounts. The allowance is established using predetermined percentages against the respective year the receivable was established, ranging from 0% to 100%.

Loans

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

Investments

Investments are reported net of any unamortized premium or discount. The USF's investments include intragovernmental securities and repurchase agreements. All commercial investments are considered to be short term with maturity dates that do not exceed one year.

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

Property, Plant and Equipment

The basis for recording purchased general Property, Plant and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. The cost of PP&E acquired through donation is the estimated fair value when acquired. The cost of PP&E transferred from other Federal entities is the net book value recorded by the transferring entity.

All PP&E with an initial acquisition cost of $25,000 or more and an estimated useful life of two years or greater are capitalized. Bulk purchases of similar items, which individually are not worth $25,000, but collectively are greater than $250,000, are also capitalized using the same equipment categories and useful lives as capital acquisitions. PP&E are depreciated on a straight-line basis over the estimated useful life of the item. The useful lives used are: forty years for buildings, seventeen years for patents, seven years for equipment, five years for computers and vehicles, and three years for software. Land and land rights, including permanent improvements, are not depreciated. Also, software in process is not depreciated. Normal maintenance and repair costs are expensed as incurred.

The FCC's authority relative to seized and forfeited property is cited in 47 U.S.C., Section 510. Seized property consists of real property seized from illegal telecommunication operations. The property is considered prohibited and held pending an outcome of court proceedings. Seized assets that are monetary instruments shall be recognized as an asset when seized and a corresponding liability shall be reported equal to the seized asset value. The FCC has no seized assets that are monetary instruments. Forfeited property consists of seized property legally turned over to the FCC and disposed of through the General Services Administration's (GSA) surplus process or destroyed. The values assigned to the seized and forfeited property are determined by FCC engineers and are based on current market values for comparable property.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. FCC liabilities cannot be liquidated without legislation that provides resources to do so. Since the FCC is a component of the U.S. Government, a sovereign entity, payments of all liabilities other than contracts can be abrogated by the sovereign entity.

<u>Liabilities Covered by Budgetary Resources</u> – Represent liabilities funded by available budgetary resources including: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of expired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriations or borrowing authority, as of the Consolidated Balance Sheet date. All liabilities covered by budgetary resources are classified as current and are expected to be paid within one year following the

reporting date.

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

Accounts Payable and Accrued Liabilities (continued)

Liabilities Not Covered by Budgetary Resources – Exist when funding has not yet been made available through Congressional appropriations or current earnings. The FCC recognizes such liabilities for employee annual leave earned but not taken, and amounts billed by the Department of Labor for Federal Employee's Compensation Act (disability) payments.

Deferred Revenue

The FCC collects proceeds from the sale of communications spectrum on behalf of the U. S. Government. Spectrum sales transactions typically consist of an initial down payment equal to 20% of the net winning bid and a final down payment at the time the license is granted. All first down payment money is recognized by the FCC as deferred revenue until a final payment date is established by "prepared to grant" public notice.

Liability for Borrowings to Treasury

This account represents amounts due to the Bureau of Public Debt, U.S. Treasury, to support the Spectrum Auction Loans Program. Borrowings are determined based on the FCC's subsidy estimate and reestimate in accordance with the FCRA of 1990, as amended, and guidance issued by OMB.

Payable to Providers

This account represents collected contributions yet to be distributed to and awaiting approval for eligible telecommunications services provided through the USF Program. In FY 2001, the FCC financial statements reflect a change in accounting principle, recognizing all the expenses of the USF Program through the Statement of Net Cost, which flows to the Net Position, Cumulative Results of Operations on the Balance Sheet, and as Nonexchange Revenue on the Statement of Changes in Net Position.

Retirement Plans and Other Benefits

Federal Employee benefits consist of the actuarial portions of future benefits earned by Federal employees, but not yet due and payable. These costs include pensions, other retirement benefits, and other post-employment benefits. These benefits are administered by Office of Personnel Management (OPM) and not by the FCC. Since the FCC does not administer the benefit plans, the FCC does not recognize any liability on the Consolidated Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. FCC does, however, recognize the imputed costs and imputed financing related to these benefits in the Statement of Net Cost and the Statement of Changes in Net Position, respectively.

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

Retirement Plans and Other Benefits (continued)

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

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

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

Leave

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

Revenues and Other Financing Sources

Exchange and Nonexchange Revenue **-** Exchange revenue is the amount of money earned for goods and services provided to other agencies and the public. For example, spectrum auction sales and reimbursable agreements are considered exchange revenue to the Federal government. Nonexchange revenue is recorded for transactions where revenue is earned at no substantial cost to the provider. For example, collections from fines and forfeitures are considered nonexchange revenue. Other Financing sources are funding such as appropriations, where resources are received and nothing of value is given in return.

FEDERAL COMMUNICATIONS COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2001 and 2000
(dollars in thousands unless otherwise stated)

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

Revenues and Other Financing Sources (continued)

Regulatory Fee Collections (Exchange) - The Omnibus Budget Reconciliation Act of 1993 directed the FCC to assess and collect regulatory fees to recover the costs incurred in carrying out certain provisions of the Agency's mission. Regulatory fees are intended to offset costs associated with the FCC enforcement, policy and rulemaking, international, and user information activities. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the FCC's annual appropriation via a negative warrant processed at the close of each fiscal year. Only once, in fiscal year 1998, have fee attainments been less than the established level. The regulatory fee collection of $200 million for FY 2001 was achieved.

Radio Spectrum Auction Proceeds (Exchange) – The proceeds from auctioning the right to use the radio spectrum are exchange revenues, because each party receives and sacrifices something of value. The amount of revenue is earned by sales in the market at auctions. The proceeds from the auction of the radio spectrum bear little relationship to the costs recognized by the FCC, which collects the revenue, and should not, according to Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* be offset against the costs of the FCC in determining its net cost of operations. Therefore, FCC accounts for this exchange revenue as a custodial activity. Revenue on spectrum auction is recognized when the final payment date is established by the "prepared to grant" public notice.

Recognition of revenue based on the "prepared to grant" public notice represents a change from the FY 2000 policy of recognizing revenue at the time the second down payment was received. The change converts the FCC to a full accrual basis of accounting by recognizing revenue at the point when a payment date is established, not when full payment is received. This change has no effect on the FY 2000 balances because all "prepared to grant" receivables were paid prior to the end of the fiscal year.

Offsetting Collections (Exchange) – One of FCC's primary functions is the management of the Spectrum Auction Program on behalf of the U.S. Government. Proceeds from the auctions are initially remitted to the FCC and later transferred to the U.S. Treasury, net of anticipated auction related costs. Under 47 U.S.C. Section 309, a portion of the Spectrum Auction proceeds may be retained by the FCC to offset the cost of performing the auction function. Collections used to offset the cost of performing auctions related activity totaled $67,525 for FY 2001 and $45,407 for FY 2000.

Application Fees (Exchange) - Congress authorized the FCC (Section 8 47 U.S.C.) to impose and collect application processing fees and directed the FCC to prescribe charges for certain types of application processing or authorization services it provides to communications entities over

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

Revenues and Other Financing Sources (continued)

which the FCC has jurisdiction. Application fees are deposited in the U.S. Treasury and are not available for the FCC to use.

Reimbursable Work Agreements (Exchange) – The FCC recognizes reimbursable work agreement revenue when earned, i.e. goods have been delivered or services rendered. The FCC executed agreements with other agencies totaling approximately $1,100 in FY 2001 and $1,000 in FY 2000.

Annual Appropriations (Financing Source) - The FCC receives an annual salaries and expense appropriation from Congress. These funds are used to fund operations during the course of the fiscal year and are repaid to the U.S. Treasury once regulatory fees have been collected. The annual appropriation for fiscal year 2001 was $230,000 less regulatory fee collections of $200,146 resulting in a net appropriation of $29,854. The annual appropriation for FY 2000 was $209,909 less regulatory fee collections of $185,754 for a net appropriation of $24,155.

Subsidy Estimates and Reestimates (Financing Source) – The FCC receives permanent-indefinite authority in accordance with the FCRA of 1990, as amended, to fund its subsidy estimates and reestimates, unless otherwise prescribed by OMB. This authority funds repayment to the U.S. Treasury for the portion of Spectrum Auction loans that will not be recovered from the borrower.

USF Program (Nonexchange Revenue) – Carriers conducting interstate telecommunications are required to remit a portion of their revenues to fund the cost of providing universal service. The USF Program consists of five elements, four of which are the USF support mechanisms: (1) schools and libraries; (2) low income service areas; (3) high cost service areas; and (4) rural health care. The fifth element is the TRS which provides services to the blind and physically handicapped. In FY 2001, the FCC reported these collections and related receivables as a financing source on its statement of changes in net position. The FY 2001 presentation differs from the FY 2000 presentation where these revenues were included on the statement of custodial activity. See Note 28 for an explanation of the change.

Transactions with Related Parties

In the course of its operations, the FCC has relationships and financial transactions with numerous Federal agencies. The more prominent of those relationships are with the Department of the Treasury (Treasury) and the OMB. FCC also has relationships with agencies such as the GSA, the DOL, the OPM, and the Department of Agriculture (USDA), National Finance Center (NFC), among others.

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

Transactions with Related Parties (continued)

In addition to its relationships and financial transactions with Federal agencies, the FCC has a direct relationship with two organizations that were established to assist the FCC in carrying out its mission. These organizations are USAC, which administers the four USF support mechanisms, and NECA which administers the TRS Fund.

Other components of the FCC, as defined by SFFAC No. 2, but excluded from these financial statements include the programs administered by the LNPA and the NANPA. LNPA works with carriers to update data tables for required number portability, and NANPA administers the numbering resources to support the industry's efforts to accommodate current and future numbering needs. The management of FCC reviews the programs annually for materiality with respect to FCC's consolidated financial statements. Under current guidance, the results of these programs will be included in the consolidated financial statements of the FCC if these activities become material in future reporting periods.

Net Position

Net position account balances consist of the following components:

<u>Unexpended Appropriations</u> – Represents amounts of spending authority that are unobligated and available to the FCC, or obligated but not expended. Unexpended appropriations can also result from downward subsidy cost reestimates of mandatory loan programs.

<u>Cumulative Results of Operations</u> – Represents the FCC's net results of operations since inception, including (1) the cost of property and equipment acquired that has been financed by appropriations, less accumulated depreciation, (2) the amount of appropriated funding that will be needed in future periods to liquidate liabilities incurred through the current fiscal year, and (3) for FY 2001, any collected contributions and associated investment interest earned not yet approved for distribution as of September 30, 2001. Funding for these items is generally received in the year that amounts become due and payable.

(dollars in thousands unless otherwise stated)

Note 2 - Fund Balance with Treasury:

The following summarizes the types of fund balance with Treasury as of September 30, 2001 and 2000:

Fiscal Year 2001	Entity	Non-Entity	Total
General Funds	$ 85,179	$ -	$ 85,179
Revolving Funds	18,175	-	18,175
Deposit Funds	-	3,954,760	3,954,760
Trust Funds		88	88
Total Fund Balance	$ 103,354	$3,954,848	$4,058,202

Status of Fund Balance with Treasury:	**FY 2001**
Unobligated Balance	
Available	$ 31,760
Unavailable	3,962,612
Obligated Balance not yet Disbursed	63,830
Total	$ 4,058,202

Fiscal Year 2000	Entity	Non-Entity	Total
General Funds	$1,893,358	$ -	$1,893,358
Revolving Funds	10,136	-	10,136
Deposit Funds	-	304,171	304,171
Trust Funds		-	-
Total Fund Balance	$1,903,494	$ 304,171	$2,207,665

General Funds - These funds consist of salaries and expense appropriation accounts used to fund agency operations and capital expenditures, no-year accounts used to carryover spectrum auction and regulatory fee funds not obligated in the year received, and the credit reform program account.

Revolving Funds – The credit reform financing account is considered to be a revolving fund by Treasury. This is the only revolving fund maintained by the FCC. This fund records cash flows associated with the FCC's Spectrum Auction Loan program.

(dollars in thousands unless otherwise stated)

Note 2 - Fund Balance with Treasury: (continued)

Deposit Funds - These funds are maintained to account for receipts awaiting proper classification or receipts being held in escrow until proper distribution can be made. The three deposit accounts used by FCC hold spectrum auction receipts, international telecommunications settlements, and regulatory fee monies. Deposit funds are not available for use by the FCC unless they are properly identified or reclassified as FCC funds, otherwise, these funds will be returned to the depositor or transferred to the U.S. Treasury.

Trust Funds – The FCC maintains one Gift and Bequest fund, established in FY 2001. The funds were given to perform a study on noise and interference affecting the performance of existing and proposed communication systems.

Note 3 – Cash and Other Monetary Assets:

The following summarizes cash and other monetary assets as of September 30, 2001 and 2000:

FY 2001	Entity Assets	Non-Entity Assets	Total
Impress Fund	$ 64	$ -	$ 64
Money Market Funds	1,594,667	7,523	1,602,190
Total Cash	$1,594,731	$ 7,523	$1,602,254

FY 2000	Entity Assets	Non-Entity Assets	Total
Imprest Fund	$ 64	$ -	$ 64
Money Market Funds	-	1,151	1,151
Cash on deposit with Commercial banks	-	48,108	48,108
Total Cash	$ 64	$ 49,259	$ 49,323

Non-entity money market funds are upfront deposits being held for Auctions 40 and 41. Entity money market funds include $1,593,738 in USF contributions and interest distributed among five money market funds, and $929 in TRS contributions and interest being held in the TRS operating account. Interest rates for the money market accounts were at approximately 3.0% at year end. The large increase over FY 2000 money market balances is the result of a shift in the USF portfolio from individual securities to government market funds.

(dollars in thousands unless otherwise stated)

Note 4 – Investments:

The following summarizes investments as of September 30, 2001 and 2000:

FY 2001	Cost	Amortization Method	Unamortized (Premium) Discount	Investments, Net
Intragovernmental				
Marketable Securities	$ -	SL	$ -	$ -
With the Public:				
Marketable Securities	623,725	SL	(3,669)	620,056
Repurchase Agreements	32,515	N/A	-	32,515
Total With the Public	656,240		(3,669)	652,571
			-	
Total Investments	$ 656,240		$ (3,669)	$ 652,571

The market value of Marketable Securities with the Public, as of September 30, 2001, was $611,648.

FY 2000	Cost	Amortization Method	Unamortized (Premium) Discount	Investments, Net
Intragovernmental				
Marketable Securities	$ 1,297,611	SL	$ -	$ 1,297,611
With the Public:				
Repurchase Agreements	716,360	N/A	-	716,360
TRS (Other)	18,588	N/A	-	18,588
Total With the Public	$ 734,948		$ -	$ 734,948
Total Investments	$ 2,032,559		$ -	$2,032,559

(dollars in thousands unless otherwise stated)

Note 4 – Investments: (continued)

Investment balances represent USF and TRS funds that have been invested in low risk Federal and commercial securities. Marketable Federal securities are securities that can be bought and sold on the open market. All commercial investments are considered to be short term with maturity dates greater than three months but generally not exceeding one year.

Note 5 - Accounts Receivable, Net:

The following summarizes accounts receivable as of September 30, 2001 and 2000:

Fiscal Year 2001	Entity	Non-Entity	Total
Intra-governmental			
Gross Accounts Receivable	$ -	$ -	$ -
Allowance for Doubtful Accounts	(-)	(-)	(-)
Net Accounts Receivable	$ -	$ -	$ -
With the Public			
Gross Accounts Receivable	$ 651,268	$ 229,411	$ 880,679
Allowance for Doubtful Accounts	(86,359)	(21,242)	(107,601)
Net Accounts Receivable	$ 564,909	$ 208,169	$ 773,078

Fiscal Year 2000	Entity	Non-Entity	Total
Intra-governmental			
Gross Accounts Receivable	$ 67	$ -	$ 67
Allowance for Doubtful Accounts	(28)	(-)	(28)
Net Accounts Receivable	$ 39	$ -	$ 39
With the Public			
Gross Accounts Receivable	$ 20,852	$ 528,936	$ 549,788
Allowance for Doubtful Accounts	(148)	(46,718)	(46,866)
Net Accounts Receivable	$ 20,704	$ 482,218	$ 502,922

Note 5 - Accounts Receivable, Net: (continued)

Gross entity receivables consist largely of the $629,949 and $2,673 due from USF and TRS contributors. The related allowances for USF and TRS receivables are $83,081 and $300 respectively. Another $18,494 is specific to 47 U.S.C., Section 9 regulatory fees and the related late penalties due but not paid as of September 30, 2001 with a related allowance of $2,902. Fiscal Year 2000 net regulatory fee receivables were $20,704.

Gross non-entity receivables are largely composed of $199,317 in Spectrum Auction receivables with a related allowance of $5,031 established for the full amount of one receivable that has been sent to the Department of Justice for settlement. Fines and forfeitures receivables are another $24,179 with a related $16,155 allowance for doubtful accounts.

In FY 2000, gross non-entity receivables were largely composed of $429,700 due from USF contributors and $5,150 due from TRS contributors. The related allowances for USF and TRS were $29,500 and $0, respectively. FCC FY 2000 non-entity receivables included an amount of $63,600 for the Broadband Personal Communications Services Licenses that has since been received. In addition to the Pioneer licenses, the FCC had $23,000 in receivables related to fines and forfeitures.

Note 6 - Direct Loans, Non-Federal Borrowers:

Under Section 309(j)(3) of the Communications Act of 1934, as amended, Congress directed the FCC to implement a competitive bidding (auctions) system for licensing spectrum, in order 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) 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 were provided with an opportunity to participate in the provision of spectrum-based services. By statute, the FCC can use various means to facilitate expanded participation, including alternative payment schedules, tax certificates, bidding preferences, and other procedures.

To address the mandate, the FCC provided installment financing in connection with its Spectrum Auction events, including the C Block Broadband Personal Communications Services' (PCS), F Block PCS, Narrowband PCS, Interactive Video and Data Service (IVDS), Multipoint Distribution Service (MDS), and 900MHz Specialized Mobile Radio (SMR). Under the installment financing program, winning bidders were generally given five or ten-year periods to repay their net winning bid amount (less the down payment amount), 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.

Note 6 - Direct Loans, Non-Federal Borrowers: (continued)

The FCC's first auction was conducted in 1994, and starting in 1995, installment payment mechanisms were used to finance portions of some of the winning bid amounts. Except for the Pioneer Broadband PCS, which was paid off in FY 2001, all of FCC's loan portfolio is accounted for in accordance with the FCRA of 1990. As of fiscal year 2001, the FCC's installment loan portfolio is tracked under nine cohorts. The loans receivable balance and value of the assets related to the direct loans are not the same as the proceeds FCC would expect to receive from selling their loans.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, Federal agencies are required to reestimate the subsidy cost allowance annually as of the date of the financial statements. Any increase or decrease in the subsidy cost allowance resulting from the reestimates is recognized as a change in the subsidy expense.

At OMB's request, the FCC completed four subsidy reestimates resulting in an overall upward subsidy adjustment of $2.7 billion at September 30, 2001. The first reestimate performed in December, 2000 was for performance data through September 30, 2000 and generated a downward adjustment of $3.4 billion that was reported in the FY 2000 financial statements. The second subsidy reestimate resulted in a $6.2 billion downward adjustment based on the assumption that FCC would receive a greater than 100 percent recovery rate on its C-block re-auctioned licenses in FY 2001. The third subsidy reestimate resulted in an upward adjustment of $8.8 billion after the potential for recovery above 100 percent was impaired by the loss of a court case concerning a significant portion of the C-block licenses re-auctioned. The last subsidy reestimate was completed in December 2001 for performance data through September 30, 2001. The result of this reestimate was an upward adjustment of $91.7 million that was reported in the FY 2001 financial statements, but will not be reported in the budget until FY 2002.

As required under the FCRA of 1990, as amended, the FCC coordinates with the OMB in developing estimation guidelines, regulations, and the criteria to be used in calculating the subsidy cost allowance. This joint effort is undertaken to facilitate the development and improvement of cost and recovery rate estimates. Therefore, the subsidy cost allowance has been prepared under specific guidance provided by the OMB in an effort to ensure that the objectives of the Federal government, taken as a whole, are being achieved and does not represent the FCC's current policy position on the auction of spectrum held previously by other parties.

(dollars in thousands unless otherwise stated)

Note 6 - Direct Loans, Non-Federal Borrowers: (continued)

Loans Receivable - Loans receivable for post-1995 Spectrum Auctions are recorded at the principal outstanding, net of allowance for subsidy. Allowance for subsidy costs represents the difference between the present values of estimated net cash inflows and outflows of the Spectrum Auction loans. The allowance for subsidy cost is amortized using the effective interest method based on the U.S. Treasury's interest rate at the time loans were disbursed. The allowance for subsidy also provides for write-offs on defaults and other costs that may affect cashflows.

Accrued Interest – FCC accrues interest on loans as it is earned. Current FCC policy automatically grants Spectrum Auction loans two sequential three-month grace periods for which borrowers are charged late fees. In accordance with the FCC rules, at the end of the six-month total grace period, loans are considered to be in default and the license is automatically cancelled. For financial reporting purposes, it is the FCC's policy to discontinue accruing interest on loans that are beyond the six-month grace period, since these loans are considered non-performing. Therefore, it is the FCC's policy to accrue and record interest only on the performing loans for financial reporting purposes.

Direct Loans Obligated After FY 1991

Loan Program	Gross Loans Receivable	Interest Receivable	Other Receivables	Allowance for Subsidy	Net Loans Receivable
Spectrum Auctions:					
FY 2001	$5,593,132	$291,656	$ 2,935	$ 84,773	$5,972,496
FY 2000	$8,177,261	$429,889	$ 2,952	$ 982,418	$9,592,520

Total Amount of Direct Loans Disbursed (Post 1991):

Spectrum Auctions:	
FY 2001	$ -
FY 2000	$ 93

(dollars in thousands unless otherwise stated)

Note 6 - Direct Loans, Non-Federal Borrowers: (continued)

Subsidy Expense for Direct Loans by Program and Component

1. Subsidy Expense for New Direct Loans Disbursed:

Loan Program	Interest Differential	Defaults	Fees	Other	Total
Spectrum Auctions:					
FY2001	$ -	$ -	$ -	$ -	$ -
FY 2000	$ (58)	$ 151	$ -	$ -	$ 93

2. Direct Loan Modifications and Reestimates:

Loan Program	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Spectrum Auctions:				
FY 2001 (Net)			$ 2,668,531	$ 2,668,531
FY 2000			$ (3,381,499)	$ (3,381,499)

3. Total Direct Loan Subsidy Expense:

Spectrum Auctions:

FY 2001	$ 2,668,531
FY 2000	$ (3,381,592)

Subsidy Rates for Direct Loans by Program and Component

There were no new direct loans disbursed in FY 2001.

(dollars in thousands unless otherwise stated)

Note 6 - Direct Loans, Non-Federal Borrowers: (continued)

Schedule for Reconciling Subsidy Cost Allowance Balances

	FY 2001
Beginning Balance of the Subsidy Cost Allowance	$ (982,418)
Subsidy expense for direct loans disbursed:	
During FY 2001 by component:	
Interest rate differential costs	-
Default costs (net of recoveries)	-
Fees and other collections	-
Other subsidy costs	-
Adjustments:	
Loan modifications	-
Fees received	-
Loans written off	(2,352,755)
Subsidy allowance amortization	591,430
Other	(9,561)
Ending balance before reestimates	(2,753,304)
Subsidy reestimates:	
Interest rate reestimate	-
Technical/default reestimate	2,668,531
Ending balance of the subsidy cost allowance	$ (84,773)

Administrative Expense:

Spectrum Auctions Total FY 2001	$ 6,700
Spectrum Auctions Total FY 2000	$ 4,836

Note 7 – Seized and Forfeited Property:

For materiality reasons the FCC did not report the value of forfeited property on the face of the financial statements in FY 2001 however, the number and value of seized and forfeited property is reported below in accordance with OMB Form and Content. During FY 2001 the FCC transitioned it's reporting for seized and forfeited property from a manual spreadsheet to its property database. The property database accounts for this property using the lot number assigned to it and no longer classifies items into the four categories; (1) prohibited, (2) radio frequency, (3) audio, and (4) other, that were used in prior years.

(dollars in thousands unless otherwise stated)

Note 7 – Seized and Forfeited Property: (continued)

Seized Property

FCC seizes property from illegally operated radio and other communication operations. The property is held pending the outcome of court proceedings. The property is comprised of prohibited property, radio frequency, audio equipment and other communications equipment. The values assigned to the property are determined by FCC engineers based on current market values for comparable property.

Seized Property as of September 30, 2001:

FY 2001

Seized	No. of Lots	Dollar Value
Beginning Balance	26	$ 55
Seized	10	15
Forfeited	18	(33)
Ending Balance	18	37

Forfeited Property

Forfeited property consists of seized property legally transferred to the FCC. The FCC does not resell the items. Forfeited items are either disposed of through the GSA surplus process or destroyed. The property is comprised of prohibited property, radio frequency, audio equipment and other communications equipment. The values assigned to forfeited property are determined by FCC engineers, which are based on current market values for comparable property. Forfeited Property as of September 30, 2001:

FY 2001

Forfeited	No. of Lots	Dollar Value
Beginning Balance	53	$ 61
Forfeited	18	33
Disposed	53	(75)
Ending Balance	18	19

(dollars in thousands unless otherwise stated)

Note 8 - Property, Plant and Equipment, Net:

The following summarizes general property, plant and equipment (PP&E) as of September 30, 2001 and 2000:

FY 2001 Classes of PP&E	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Land	$ 1,304	$ -	$ 1,304	N/A
Buildings	4,091	3,858	233	40
Furniture	19,158	7,755	11,403	7
Equipment	7,891	5,497	2,394	7
Computer Equip.	14,214	8,583	5,631	5
Bulk Purchases	4,409	2,753	1,656	5 - 7
Vehicle Systems	2,913	1,901	1,012	5
Broadcast Station Equipment	4,096	4,036	60	7
Patent	800	208	592	17
ADP Software	16,037	11,807	4,230	3
Software In Process	6,803	-	6,803	N/A
Total	$ 81,716	$ 46,398	$ 35,318	

FY 2000 Classes of PP&E	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Land	$ 1,292	$ -	$ 1,292	N/A
Buildings	4,091	3,848	243	20
Furniture	19,158	5,018	14,140	7
Equipment .	6,647	5,084	1,563	7
Computer Equip.	13,450	7,722	5,728	5
Bulk Purchases	4,409	1,907	2,502	5 - 7
Vehicle Systems	2,924	1,150	1,774	7
Broadcast Station Equipment	4,497	4,359	138	7
Patent	800	137	663	17
ADP Software	14,024	6,577	7,447	3
Software In Process	3,909	-	3,909	N/A
Total	$ 75,201	$ 35,802	$ 39,399	

In FY 2001 the FCC revised the useful lives related to the Buildings and Vehicle Systems categories from 20 and 7 years to 40 and 5 years, respectively. The effects of the change have been reflected in current year activity.

(dollars in thousands unless otherwise stated)

Note 9 – Liability for Borrowings from Treasury:

The FCC borrows from the U.S. Treasury for costs associated with its Spectrum Auction Loan Program. Borrowings are determined upon calculation of the subsidy estimates and reestimates in accordance with the FCRA of 1990, as amended. The borrowings pertain to all loan cohorts.

	FY 2001	FY 2000
Beginning Balance	$5,307,271	$3,938,605
Net Borrowing	802,333	1,368,666
Ending Balance	$6,109,604	$5,307,271

Note 10 – Accounts Payable:

The following summarizes accounts payable as of September 30, 2001 and 2000:

FY 2001	Intragovernmental	With the Public	Total
Accounts Payable - FCC	$ -	$ 14,878	$ 14,878
Accounts Payable – TRS	-	9,819	9,819
Accounts Payable - USF	-	369,924	369,924
Total Accounts Payable	$ -	$ 394,621	$ 394,621

FY 2000	Intragovernmental	With the Public	Total
Accounts Payable - FCC	$ -	$ 14,403	$ 14,403
Accounts Payable – TRS	-	9,532	9,532
Accounts Payable - USF	-	385,694	385,694
Total Accounts Payable	$ -	$ 409,629	$ 409,629

The Accounts Payable – FCC balance reflects amounts owed for goods and services that have been received, but not liquidated as of September 30, 2001.

Accounts Payable - USF and Accounts Payable – TRS represent liabilities for provider payments that have been approved but not yet paid.

(dollars in thousands unless otherwise stated)

Note 11 – Other Debt:

Other Debt is comprised of a liability of $125,274 resulting from litigation against the FCC. This liability is considered long-term and liquidation of the liability is dependent upon the outcome of upcoming auctions.

Note 12 – Deferred Revenue:

The significant increase in deferred revenue over FY 2000 is related to the re-auction of C-block licenses under Auction 35. Deferred revenue for Auction 35 is $3,295,835 of the total $3,304,671.

Note 13 - Other Liabilities:

The following summarizes other accrued liabilities as of September 30, 2001 and 2000:

FY 2001	Intra-governmental	With the Public	Total
Covered By Budgetary Resources:			
Accrued Payroll	$ 1,919	$ 9,047	$ 10,966
Other	741	-	741
Total Covered By Budgetary Resources	$ 2,660	$ 9,047	$ 11,707
Not Covered By Budgetary Resources:			
FECA Liability	$ 313	$ -	$ 313
Custodial Liability	848,619	-	848,619
Deposit/Unapplied Liability	-	20,784	20,784
Other	-	7,488	7,488
Total Not Covered By Budgetary Resources	$ 848,932	$ 28,272	$ 877,204
TOTAL	$ 851,592	$ 37,319	$ 888,911

(dollars in thousands unless otherwise stated)

Note 13 - Other Liabilities: (continued)

FY 2000	Intragovernmental	With the Public	Total
Covered By Budgetary Resources:			
Accrued Payroll	$ 1,762	$ 8,369	$ 10,131
Other	607	-	607
Total Covered Budgetary Resources	$ 2,369	$ 8,369	$ 10,738
Not Covered By Budgetary Resources:			
FECA Liability	$ 443	$ -	$ 443
Custodial Liability	326,346	740	327,086
Deposit/Unapplied Liability	17,002	46,799	63,801
Total Not Covered By Budgetary Resources	$ 343,791	$ 47,539	$ 391,330
TOTAL	$ 346,160	$ 55,908	$ 402,068

The custodial liability includes both cash collected and receivables being held for transfer to the U.S. Treasury General fund. The FCC collects three forms of custodial revenue: spectrum auction revenue, penalty revenue on regulatory fees, and interest revenue on auction deposits (held for TDF).

Deposit/Unapplied Liabilities represent either upfront deposits made by auctions bidders or funds received that are being held until proper application is determined. The FCC considers all other accrued liabilities to be current.

Note 14 - Payable to Providers:

The USF collects funds from contributing telecommunications service providers in accordance with FCC regulations. Pursuant to FCC rules, the universal service support funds are made available to service providers to assist in making access to telecommunication services more affordable to remote or rural areas, low-income neighborhoods, rural health care providers, and public and private schools and public libraries.

The TRS fund compensates service providers for the reasonable costs of providing interstate telephone transmission services that enable persons with hearing or speech disabilities to use wireline or wireless telecommunications services.

Accordingly, the payable to providers represents collected contributions that have yet to be distributed to eligible providers for eligible universal service support. The USF portion was $2,038,603 for FY 2000. The TRS portion was $14,246 for FY 2000. For treatment of the FY 2001 financial transactions, see Note 28.

(dollars in thousands unless otherwise stated)

Note 15 - Leases:

Operating Leases

The FCC has operating leases for rental of office space and office equipment. The copier lease arrangements are renewable annually with five possible annual renewal periods.

Future lease obligations under operating leases are as follows:

Fiscal Year	Bldg	Copier	Total
2002	36,966	1,154	38,120
2003	37,290	1,154	38,444
2004	37,590	1,154	38,744
2004	37,885	1,171	39,056
2006	38,179	1,171	39,350
Total Future Lease Payments	$187,910	$5,804	$193,714

Note 16 – Unexpended Appropriations:

Unexpended Appropriations	**FY 2001**	**FY 2000**
Unobligated:		
Available	422	6,103,668
Unavailable	2,745	6,992
Undelivered Orders	26,580	17,336
Non-Budgetary Accruals	(5,735)	(5,306)
Total Status	$ 24,012	$ 6,122,690

Note 17 – Gross Costs and Related Exchange Revenue:

Section 9(a) of the Communications Act of 1934, as amended, authorizes the Commission to assess and collect annual regulatory fees to recover the costs, as determined annually by Congress, that it incurs in carrying out enforcement, policy and rulemaking, international, and user information activities. OMB Circular No. A-25 revised, *User Charges*, requires an agency to assess a user charge against each identifiable recipient for special benefits derived from Federal activities beyond those received by the general public. The Circular also requires that user fees be established to recover the full cost to the Federal government of providing the service when the Government is not acting in its capacity as a sovereign entity. Where a statute prohibits certain aspects of the user fee, the statute shall take precedence over the requirements of

OMB Circular A-25. These fees were established by Congressional authority, and, consistent with OMB Circular A-25, the FCC did not determine the full costs associated with its regulatory activity in the establishment of regulatory fees.

Note 17 – Gross Costs and Related Exchange Revenue: (continued)

With regards to the costs reported on the FY 2000 Statement of Net Cost, these costs were allocated to the four approved FCC programs in the FY 2000 Budget Submission (Authorization of Service, Policy and Rulemaking, Enforcement, and Public Information Service) on the basis of total and direct program costs. There were four common cost pools, which consisted of Leave Costs, Other Costs, Bureau Overhead Costs, and Executive Direction Costs and the costs were allocated in that order. All four cost pools were allocated on the basis of total costs and were ultimately distributed either to activity codes for Salaries and Expenses related costs or auctions related costs. Specifically, Leave Costs were allocated on a total cost basis and all other costs were allocated based on direct program costs. At the completion of the common cost allocation process, all costs were summarized according to the four programs.

For FY 2001, the FCC modified its budget submission to present Spectrum Management as a fifth FCC program. As a result, the following five core approved programs were reflected in the FCC FY 1999 Budget submission proposed for FY 2001: Licensing, Competition, Enforcement, Consumer Information Service, and Spectrum Management. With the exception of some minor FTE redistributions discussed below, three of the four programs remained functionally the same from FY 2000 to FY 2001, named as follows: Authorization of Service is retitled Licensing; Public Information Service is retitled Consumer Information Service; and the Enforcement program is still entitled the Enforcement Program. The fourth program, Policy and Rulemaking Program, is now divided in FY 2001 between the Competition and Spectrum Management Programs.

Costs reported on the FY 2001 Statement of Net Cost are allocated to the five approved FCC programs in the FY 2001 approved budget as defined above based on the four common cost pools methodology described in the paragraph above. The methodology was then expanded to convert resulting costs from a four program allocation to a five program allocation based on the realignment of specific functions and FTEs from the other programs. Costs initially included in the Policy and Rulemaking Program, related to Office of Engineering and Technology (OET) and International Bureau (IB), that are attributed to Spectrum Management activities, were removed and included in the Spectrum Management Program on the FY 2001 Statement of Net Cost. The remaining costs from the Policy and Rulemaking Program were included in the Competition Program. Additionally, an allocation was made to distribute costs based on actual FY 2001 operations. This adjustment was based on actual FTEs and resulted in a reduction in costs to the Enforcement Program that was redistributed to the other four programs. This redistribution was done at the allocation level. This allocation is consistent with the allocation performed by the FCC's Budget Office, within the approved budget, to realign costs among the five programs.

To substantiate the revised five program allocation method, the FCC performed certain cost finding steps. These steps consisted of conducting interviews of key personnel in FCC's bureaus and Budget Center, analyzing supporting documents obtained during the interviews, and performing a variety of analytical procedures.

(dollars in thousands unless otherwise stated)

Note 17 – Gross Costs and Related Exchange Revenue: (continued)

Costs for Intragovernmental and With-The-Public were separately identified by the FCC. The FCC then determined the percentage of Intragovernmental costs and costs with the public as a ratio to total costs. These percentages were applied to program level costs in allocating program costs between Intragovernmental and With-The-Public at the program level.

The exchange revenue recognized is allocated on a one to one basis with ending gross costs. Non-Auctions revenue is composed of $24,056 related to Application Fees accrued and collected, $215,691 in Regulatory Fees accrued and collected, and $1,060 in reimbursable activity. Auction related revenue is composed of $67,525 in auction cost recoveries taken directly from spectrum auction proceeds. Credit reform revenue consists of $940,996 in interest earned on un-invested funds and interest revenue earned on credit reform loans and $4,662,674 related to interest on reestimates.

Gross costs presented for the USF Program represent the current year disbursements and related payable accruals to service providers in five areas: schools and libraries, low income, high cost, rural health care, and blind and physically handicapped as well as the administrative costs of collecting and disbursing payments.

Note 18 – Appropriations Used:

The Appropriations Used of $3,469,300 in FY 2001 is net of adjustments related to the Federal credit reform loans' downward subsidy reestimate costs. The FCC receives an appropriation for upward subsidy reestimate costs, and therefore, processes the downward subsidy reestimate costs returned to Treasury as a contra to Appropriated Capital Used.

Gross Appropriated Capital Used	$ 11,604,837
Less: Adjustment for Downward Subsidy	8,135,537
Appropriated Capital Used	3,469,300

Note 19 – Prior Period Adjustments:

During fiscal year 2001, prior period adjustments were made to the accounting records. These adjustments were identified as part of a continuing effort to establish stronger review and control procedures. The following schedules present the adjustments by category for September 30, 2001 and 2000:

(dollars in thousands unless otherwise stated)

Note 19 – Prior Period Adjustments: (continued)

	FY 2001	FY 2000
Entries to recognize property and related depreciation for items purchased in prior years but not identified until the current year	$ (69)	$ (1,745)
Entries to remove stale accruals	2,557	
Entry to reduce overstated depreciation on Furniture		7,298
Entry to reclassify credit reform funds from Cumulative Results to appropriated capital.		(1,826,241)
Entries to reclassify auctions and regulatory Funds from appropriated capital to Cumulative Results		(11,160)
Removal of liability for moving and furniture costs		74,132
Regulatory Fees		(2,534)
Other	101	(41)
Total Prior Period Adjustments	$ 2,589	$ (1,760,291)

Note 20 – Dedicated Collections:

U.S. telecommunication companies are obligated to pay assessments for Universal Service support and for telecommunications relay service, which are established by the FCC. These assessments are accounted for in the Budget of the U.S. Government as the "Universal Service Fund." As defined by the SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as issued by the FASAB, such monies are not considered exchange revenues because neither the FCC nor the USF Program sacrificed value or received value in return for the collection and disbursement of the contributed funds (e.g., provided goods or services for a price).

The FCC currently recognizes the assessments collected under the USF Program as nonexchange revenue on its Statement of Changes in Net Position and the related disbursements as program expenses on the Statement of Net Cost. The current treatment represents a change to the FY 2000 recognition policy discussed in Note 28.

(dollars in thousands unless otherwise stated)

Note 20 – Dedicated Collections: (continued)

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

	FY 2001	FY 2000
Assets		
Cash and Other Monetary Asset (Note 3)	$ 1,594,667	$ 1,151
Investments (Note 4)	652,571	2,041,535
Accounts Receivable (Note 5)	549,241	405,350
Liabilities		
Accounts Payable (Note 10)	$ 379,743	$ 395,226
Payable to Providers (Note 14)	-	2,052,849
Net Position	2,424,623	-
Nonexchange Revenue		
Contributions	$ 5,263,872	
Interest	88,868	
Expenses		
Provider Related	$ 4,940,907	
Administrative Costs	40,060	39,608

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

Note 21 – Commitments and Contingencies:

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to FCC. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a

future outflow or other sacrifice of resources is more likely than not, and the related future
Note 21 – Commitments and Contingencies: (continued)

outflow or sacrifice is measurable. For pending, threatened, or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable.

The FCC is a party in various administrative proceedings, legal actions and claims brought by or against the agency. In addition, several bankruptcy proceedings are ongoing related to the loan portfolio. See Note 6 for more information related to the loans. In the opinion of FCC management, the ultimate resolution of proceedings, actions and claims, outside of the loans, will not materially affect the financial position or results of operations of FCC. Additionally, there are certain matters under consideration at the Department of Justice which may result in future proceedings or actions. A number of other matters are also under review at the FCC involving disbursements from the USF to a limited number of service providers participating in the schools and libraries program. In the opinion of FCC management, it is unlikely that all matters under review will result in legal proceedings or other actions and as such an estimated amount of recovery cannot be determined at this time. During FY 2001 the USF recovered $1.3 million as a result of the above mentioned reviews.

The FCC has examined its obligations related to cancelled FY 1996 authority and believes that it has no outstanding commitments that will require future resources.

Note 22 - Statement of Budgetary Resources:

FCC receives borrowing authority consistent with the FCRA of 1990, as amended. The borrowing is authorized through an indefinite permanent authority at interest rates set each year by the Department of Treasury. In addition, the FCC has permanent indefinite authority for subsidizing the Spectrum Auction direct loan program and mandatory authority to spend USF Program receipts. All unobligated budgetary authority is in compliance with applicable appropriation laws with regards to time limitations, restriction and purpose.

In accordance with applicable standards, all funds are borrowed from the Bureau of the Public Debt at the beginning of the period. Therefore, the FCC does not carry over any unused borrowing authority. Repayments of borrowings are made in accordance with the terms of the FCRA of 1990, as amended. Financing sources for repayment are collections from borrowers or subsidy.

Certain limitations have been placed on spending authority related to the USF. No more than $2.25 billion per funding year may be spent on Federal universal service support for schools and libraries. All schools and libraries funding authority for a given year that is unused in that funding year shall be carried forward into subsequent funding years for use in accordance with demand. 47 CFR §54.507(a). No more than $400 million per funding year may be spent on Federal universal service support for health care providers 47 CFR §54.623(a). A funding year for the purposes of the USF is the period July 1 through June 30.

Note 22 - Statement of Budgetary Resources : (continued)

The net amount of budgetary resources obligated for undelivered orders at the end of FY 2001 was $51,857.

Adjustments shown on the FY 2001 Statement of Budgetary Resources are composed primarily of two transactions related to the large upward and downward reestimates performed in FY 2001. Related to the downward reestimates is a capital transfer to Treasury of $14,230,980 for funds received as a result of the downward reestimate that was not going to be used for new loans. Also included in the adjustments is the payment against borrowings from the Bureau of Public Debt for $11,860,947.

Note 23 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government:

Budgetary Resources ($ in millions):	Financial Statements	President's Budget	Difference	
Budget Authority	$29,560	$29,561	$ 1	A
Unobligated Balances – Beginning of Period	3,811	2,029	(1,782)	B
Spending Authority from Offsetting Collections	25,555	25,564	9	C
Adjustments	(26,095)	(26,094)	1	D
Total Budgetary Resources	32,831	31,060	(1,771)	
Status of Budgetary Resources ($ in millions):				
Obligations Incurred	$30,495	$30,792	$ 297	E
Unobligated Balances – Available	2,296	237	(2,059)	F
Unobligated Balances – Not Available	40	31	(9)	G
Total, Status of Budgetary Resources	32,831	31,060	(1,771)	
Outlays ($ in millions):				
Obligations Incurred	$ 30,495	$ 30,792	$ 297	E
Less: Spending Authority from Offsetting Collections and Adjustments	(25,559)	(25,564)	(5)	H
Obligated Balance, net – Beginning of Period	45	1,816	1,771	I
Less: Obligated Balance, net – End of Period	(64)	(2,123)	(2,059)	F
Total Outlays	4,917	4,921	4	

A – The President's Budget includes a legislative proposal figure of $1 million to fund the full cost of retirement benefits.

Note 23 – Explanation of Differences Between the Statement of Budgetary Resources and

the Budget of the United States Government: (continued)

B – The President's Budget includes an adjustment to reflect the undelivered obligation portion of USF Program year end funds while the Statement of Budgetary Resources (SBR) reflects all USF Program year end funds as available. This results in a difference of $(1,771) million. The remaining $(11) million is due to the inclusion of expired unobligated balances in the SBR and not in the President's Budget.

C – The President's Budget includes a legislative proposal figure of $9 million to fund the full cost of retirement benefits.

D - The SBR includes $(4) million in prior year recoveries and $5 in cancelled authority that is not shown in the President's Budget

E – The President's Budget includes a legislative proposal figure of $11 million to fund the full cost of retirement benefits. The President's Budget also reflects $288 million in USF Program obligations incurred but not paid that are not shown on the SBR because it is prepared on the basis of USF Program receipts and outlays. The remaining $(1) million represents the upward adjustments of prior year unexpended obligations $(2) that are included in the SBR and not the President's Budget and a rounding difference of $1 million.

F – The President's Budget includes an adjustment to recognize the undelivered obligation portion of USF Program year end funds while the SBR reflects all USF Program year end funds as available. This results in the $(2,059) million difference.

G – The SBR includes the expired unobligated balance of $8 million that is not included in the President's Budget. The remaining $1 million is due to rounding.

H – The president's Budget includes a legislative proposal figure of $(9) million to fund the full cost of retirement benefits. The retirement benefits amount is offset by $4 million in prior year recoveries included in the SBR and not the President's Budget.

I - The President's Budget includes an adjustment to reflect the undelivered obligation portion of USF Program year end funds while the SBR reflects all USF Program year end funds as available. This results in a difference of $1,771 million.

Note 24 – Statement of Custodial Activity:

Refunds and Other Payments consist of $1,771 in refunds to IVDS bidders as a result of the restructure of the IVDS loan portfolio.

The FCC is allowed by law to retain a portion of the spectrum auction proceeds to cover the cost of performing the auction process. In FY 2001, the FCC retained $67,525 of the amount

Note 24 – Statement of Custodial Activity: (continued)

(dollars in thousands unless otherwise stated)

collected for spectrum auctions. These proceeds are made available to the FCC on a quarterly basis. The transfers result in a reduction to FCC's custodial liability to Treasury for auctions proceeds. In addition, the FCC retained the $19,852 earned on upfront auction deposits to fund the required transfer to the TDF.

The FCC has established allowance amounts for Spectrum Auction and Fines and Forfeitures receivables of $5,031 and $16,155 respectively. These allowances reduce the custodial amount that the FCC is liable to the U.S. Treasury. The Spectrum Auction allowance is based on one receivable that has been submitted to Treasury for collection. The Fines and Forfeitures allowance is an estimate of uncollectible amounts based on aging and collection history.

Note 25 – Statement of Financing:

Financing Sources Yet to be Provided of $130,023 includes the December subsidy reestimate of $128,805, the increase in the Changes in Accrued Unfunded Leave balance of $809, the increase in Other Accrued Liabilities of $540, and the decrease in the FECA Liability of $131 over the prior year. The Other Liabilities Not Covered by Budgetary Resources shown in Note 13 Custodial Liability of $848,619, and Deposit/Unapplied Liability of $20,784, represent custodial liabilities that have no impact on the Statement of Financing.

Note 26 – Cost and Revenue by Budget Function:

The tables below represent the costs and revenues of the FCC by budget functional classification for FY 2001.

Gross Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification	Gross Cost		Earned Revenue		Net Cost	
2001						
376	$	14,463,326	$	(5,887,946)	$	8,575,380
959		19,852		(43,906)		(24,054)
Total	$	14,483,178	$	(5,931,852)	$	8,551,326

Note 26 – Cost and Revenue by Budget Function: (continued)

(dollars in thousands unless otherwise stated)

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
2001			
376	$ 1,292,464	$ (844,722)	$ 447,742
959	-	1,637,433	1,637,433
Total	$ 1,292,464	$ 792,711	$ 2,085,175

The $1,637,433 included under classification code 959 represents amounts collected for others by the FCC during FY 2001. For gross revenue purposes this amount is offset by a corresponding revenue amount. However, per Treasury requirement, contra revenue amount is shown on the intragovernmental schedule. For RSI purposes, this amount was excluded.

Note 27 – Comparability of the Statements:

FY 2001 is the first year for which comparative federal financial statements are required. To meet this requirement certain changes have been made to the FY 2000 financial presentation to effect comparability between the numbers. Changes made for comparability are disclosed below.

Balance Sheet

Per OMB Form and Content, beginning in FY 2001 the Entity and Non-entity, and the Covered by Budgetary Resources and Not Covered by Budgetary Resources categories are removed from the asset section of the financial statements. Amounts split between these categories in FY 2000 have been combined for comparative purposes on the FY 2001 statements. The balances affected include Fund Balance with Treasury, Cash and Other Monetary Assets, Accounts Receivable, and Other Liabilities.

A Deferred Revenue line has been added to the statement to present separately the unusually large deferred revenue created by Auction 35 in FY 2001. For consistency, the FY 2000 deferred revenue amount has been moved from Other Liabilities to Deferred Revenue.

In FY 2000, amounts representing collected contributions yet to be distributed and awaiting approval for payment to USF Program providers were recorded on the Balance Sheet as Payable to Providers. In FY 2001, these amounts were included in Cumulative Results of Operations. See Note 28.

Note 27 – Comparability of the Statements: (continued)

Statement of Net Cost

The Consolidated Statement of Net Cost for the period ended September 30, 2000 was presented in accordance with the following four FY 2000 budget activities: Authorization of Service, Policy and Rulemaking, Enforcement, and Public Information Service. In the FY 2001 approved budget, the number of budget activities was expanded to five: Licensing, Competition, Enforcement, Consumer Information Service, and Spectrum Management. For FY 2001, the FCC restructured its presentation of the consolidated Statement of Net Cost to align with the budget activities in the approved budget.

In FY 2000, FCC included Federal credit reform revenue and expenses as part of its allocation to each of the programs except the USF Program on the Statement of Net Cost. In FY 2001, these amounts are shown separately. For comparability, FY 2000 data was reclassified to show the credit expense and credit revenue in the FY 2000 Statement of Net Cost.

In FY 2000, the FCC recorded the portion of expenses related to managing and overseeing the USF Program as operating expenses, and recorded as revenue the portion of contributions used to fund those expenses. In FY 2001, the Statement of Net Cost reflects, for the USF Program, the total amounts paid and due to providers.

Statement of Changes in Net Position

Amounts related to the USF Program were not recorded in the FY 2000 Statement of Changes in Net Position. In FY 2001, FCC recorded total USF Program contributions as Universal Service Nonexchange Revenue.

Statement of Budgetary Resources

In FY 2000, amounts related to the USF Program were not recorded on the Statement of Budgetary Resources. In FY 2001, the Statement of Budgetary Resources includes the USF Program Budget Authority, Unobligated Balances – Beginning of Period, Obligations Incurred, and Unobligated Balances - Available.

Statement of Financing

For FY 2001 the names of two line items have changed to better reflect OMB guidance. Downward Adjustments of Prior Year (PY) Unpaid Obligation is now Recoveries of PY Obligations and Change in Receivables is now Receivable from Federal Sources.

In FY 2000, amounts related to the USF Program were not recorded on the Statement of Financing. In FY 2001, these amounts are reflected as Obligations Incurred and Change in Amount of Goods, Services, and Benefits Ordered But Not Yet Received or Provided.

Note 27 – Comparability of the Statements: (continued)

Statement of Custodial Activity

The FCC revised its Statement of Custodial Activity presentation to be consistent with OMB Form and Content. For comparative purposes, the beginning balances carried forward from prior years have been removed from the FY 2000 presentation. The impact of the exclusion is that the FY 2000 Total Revenue and (Increase)/Decrease in Amounts Yet to be Transferred balances are reduced by the amount of the beginning custodial balances of $1,787,907. In addition, the (Increase)/Decrease in Amounts Yet to be Transferred balance is increased by $64,437 to recognize the portion of the FY 2000 balance that represented accounts receivable.

The composition of the Retained by the Reporting Entity balance has been changed to reflect only the amounts kept by FCC for use in its operations. The impact of this change on FY 2000 is as follows (1) auction cost transfers of $45,407 are moved from Refunds and Other Payments to Retained by the Reporting Entity and (2) the Retained by the Reporting Entity balance of $2,467,329 is moved to the (Increase)/Decrease in Amounts Yet to be Transferred line.

The FY 2000 Sources of Cash Collections has also been revised and $368,491 has been removed from both collections and transfers for comparability with FY 2001. In FY 2000 $439,122 was recognized as Upfront Deposits; $368,491 of this amount related to interest expense with Treasury has been removed, $48,135 related to upfront deposits is grouped with Spectrum collections, $2,531 is moved to Telecommunications Development Fund collections, and the remaining 19,965 is now under Fines and Forfeitures collections.

In FY 2001, activities of the USF Program were excluded from the Statement of Custodial Activity. The FY 2000 Statement of Custodial Activity was not restated for comparability purposes. See Note 28 for a discussion on change in accounting principle. In addition, the FCC revised its recognition policy with respect to Spectrum Auction custodial revenue. In FY 2000, the FCC recognized custodial collections for both the revenue and deferred revenue portion of Spectrum Auction cash collected. In FY 2001, only the revenue is being included in custodial collections. The deferred revenue is shown only as a liability on the balance sheet of the FCC. The application of this policy to the FY 2000 Statement of Custodial Activity reduces Total Cash Collections and (Increase)/Decrease in Amounts Yet to be Transferred by $69,982.

Note 28 – Change in Accounting Principle:

The USF Program is listed as a program under the FCC in the Budget of the U.S. Government and, therefore, the FCC determined that it meets the conclusive reporting entity criterion specified in the FASAB SFFAC No. 2. The FCC is required to include the financial activity of the USF Program in its annual financial statements.

Note 28 – Change in Accounting Principle: (continued)

While the requirement to include information on the USF Program in the FCC's financial statements is clear, the proper presentation of the USF Program activity is not due to the nature of certain USF Program characteristics including:

- The USF Program funds are held in private sector hands and administered by private sector entities.
- With the exception of certain administrative costs, all of the funds are disbursed to third parties by the USF Program for the specified purpose.
- Budgetary based reporting to Treasury and OMB has been limited to the receipts and outlays of the USF Program, and these entities have not requested that the FCC, USAC, or NECA use obligation based accounting in their administration of the program.

Based on the characteristics discussed above and management's review of the SFFAS No. 7, specifically the definition of nonexchange revenue as inflows of resources to the Government that the Government demands or receives without sacrificing value, management concluded that the collections and disposition of funds related to the USF Program should be reported as nonexchange revenue. In addition, given management's view of the providers as recipient entities, the FCC followed Paragraph 58 of the Implementation Guide to SFFAS No. 7 that states "entities that collect nonexchange revenue for the General Fund and other recipient entities do not recognize revenue as a result of collecting these resources. These entities are designated as collecting entities by SFFAS No. 7, which requires collection and disposition of nonexchange revenue be accounted for as a custodial activity."

As a result, during FY 2000 the FCC recognized the collections and disbursements associated with the USF Program as both custodial and dedicated collections by recording a liability on the Balance Sheet, disclosing the funds as dedicated collections, and presenting the total collections, total disbursements, and the untransferred (undistributed) balance on the Statement of Custodial Activity instead of the Statement of Net Cost and the Statement of Changes in Net Position. The only USF Program activities recognized by FCC on the Statement of Net Cost were revenue and expenses for the portion of the funds related to managing and overseeing (administrative costs) the USF Program. This presentation follows the FASAB guidance for reporting the collection and disposition of custodial nonexchange revenues.

For fiscal year 2001 (as was the case for fiscal year 2000) the *Budget of the U.S. Government* continued to show the USF Program revenues as Federal Funds and the FCC began to take a more active role in the oversight, operations, and reporting of the USF Program. This continuing ambiguity regarding the nature of the USF Program revenues and the resulting concern of what alternative financial statement presentation would better serve the need of the users of Federal Financial Statements (including the consolidated financial statements of the U.S. Government) prompted management to re-evaluate the preferred method of presenting the USF Program operating results.

Note 28 – Change in Accounting Principle: (continued)

Recognizing that the FCC financial statements are consolidated in the financial statements of the

U.S. Government, management requested a ruling on the preferred method of accounting from FASAB. FASAB has requested additional background information, the transmittal of which is pending. However, preliminary unofficial discussion with FASAB staff indicated that the USF Program might be better reflected on the Statement of Net Cost and the Statement of Changes in Net Position.

As a result of the continuing presentation of the USF Program funds as Federal Funds, unofficial discussions with FASAB and further interpretation of SFFAS No. 7, FCC changed its method of accounting treatment for the USF Program from custodial to programmatic in FY 2001. The effects of this change on the FY 2001 presentation related to the USF Program are as follows: (1) the Balance Sheet was revised to reflect reclassification of "Payable to Providers" to "Cumulative Results of Operations"; (2) the Statement of Net Cost was revised to reflect total amounts paid and due to providers; (3) the Statement of Changes in Net Position was revised to record total contributions as Universal Service Fund Nonexchange Revenue; (4) the Statement of Financing was revised to reflect the USF Program Obligations Incurred, and to record Special Fund Receipts related to Nonexchange Revenue in the Entity's Budget; (5) the Statement of Budgetary Resources was revised to include the USF Program Appropriations, Unobligated Balance Beginning of Period, Obligations Incurred, and Ending Unobligated Balance Available; and (6) the USF Program receipts and disbursements are excluded from the Statement of Custodial Activity. Management believes this is a preferred method of accounting for the USF Program and the change has been treated as a change in accounting principle.

The change in accounting principle resulted in a cumulative adjustment of $2,052,850 in FY 2001. Had the new method of accounting been in effect during FY 2000, the FCC's Net Cost of Operations, Change in Net Position, and Unobligated Balances Available would have amounted to $356,343, $(8,107,589), and $3,775,046, respectively.

In addition to the above change, the FCC also changed accounting policy with respect to the recognition of Spectrum Auction revenue. See Note 1, Revenues and Other Financing Sources, for discussion of the change and the effect on FY 2000.

Note 29 – Subsequent Events:

On March 4, 2002 the Supreme Court of the United States granted the Government's petition to review a ruling by the D.C. Circuit Court in a case involving the FCC and NextWave Communications pursuant to which certain licenses for spectrum, which had been cancelled by the Commission upon default of NextWave and subsequently re-auctioned, were instructed to be reinstated by the D.C. Circuit Court. At issue, is the ownership of licenses for spectrum that were sold to NextWave in FY 1994. At the time of the original sale, the value of the spectrum licenses sold was approximately $4 billion. NextWave was unable to make required payments due on its loan taken out in partial payment for the licenses and therefore defaulted on the loan.

Note 29 – Subsequent Events: (continued)

Subsequently, NextWave declared bankruptcy. Under the Commission's rules, NextWave's default resulted in automatic cancellation of its licenses. In FY 2001, the FCC auction

(Auction 35) of licenses of spectrum associated with previously auctioned spectrum licenses resulted in approximately $16 billion in winning bids. While the revenue from Auction 35 has not yet been recognized as spectrum auction revenue due to its pending status, the winning bids represent recovery on a significant portion of the previously auctioned spectrum licenses for the purpose of subsidy cost estimation as required by the FCRA of 1990.

The recovery and timing of the recovery are key factors in the FCC's calculation of its annual credit reform subsidy. The accompanying financial statements have not been adjusted for any potential effects of this subsequent event.

In response to a request from the winning bidders of spectrum re-auctioned as discussed above, the Commission issued an order to return $2.8 billion, or 85% of approximately $3.1 billion in down payments relating to Auction 35, retaining amounts equal to 3% of each winning bid, the minimum bidder default payment under the Commission's rules. This is in response to a January, 2002 request by the Auction 35 winning bidders of spectrum associated with NextWave's licenses for the FCC to refund the approximately $3.1 billion in down payments that the agency has been holding since February 2001. The $3.1 billion in downpayments is reported as deferred revenue on the balance sheet at September 30, 2001. The Commission will keep the related Auction 35 licenses in a pending status until final resolution of the litigation and will require the winning bidders to pay their full bids if the U.S. Supreme Court rules in the FCC's favor.

As of this time, no additional requests have been received by the FCC to prepare any additional subsidy calculation related to either the original D.C. Court decision, the Supreme Court's agreement to review this decision, or the Commission's plan to return a portion of the down payments received for the FY 2001 re-auction.

REQUIRED SUPPLEMENTARY INFORMATION

Federal Communications Commission
Required Supplementary Information
As of September 30, 2001
(dollars in thousands)

Intra-Governmental Assets

Partner Code	Trading Partner	Fund Balance	Accounts Receivable	Loans Receivable	Investments	Other
20	Department of Treasury	$ 4,058,202	$ -	$ -	$ -	$ -
99	General Fund/Other	-	-	-	-	-
	Total	**$ 4,058,202**	**$ -**	**$ -**	**$ -**	**$ -**

Intra-Governmental Liabilities

Partner Code	Trading Partner	Accounts Payable	Borrowings From Treasury (BPD)	Other Liabilities
	Funded			
20	Department of Treasury	$ -	$ 6,109,604	$ -
16	**Department of Labor**			
	Workman's Compensation	-	-	313
	Total Department of Labor	**-**	**-**	**313**
24	**Office of Personnel Management**			
	Health	-	-	377
	Life	-	-	14
	Retirement	-	-	850
	Total Office of Personnel Management	**-**	**-**	**1,241**
	Accrued Liabilities			
4	Government Printing Office	-	-	50
13	Department of Commerce	-	-	60
14	Department of Interior	-	-	7
19	Department of State & ICASS	-	-	4
21	Department of Army	-	-	7
24	Office of Personal Management	-	-	66
47	General Services Administration	-	-	282
	Total Accrued Liabilities	**-**	**-**	**476**
20	Department of Treasury	-	-	30
99	General Fund/Other	-	-	849,532
	Total	**$ -**	**$ 6,109,604**	**$ 851,592**

Federal Communications Commission
Required Supplementary Information
For the year ended September 30, 2001
(dollars in thousands)

Intragovernmental Earned Revenues and Related Costs

Partner Code	Trading Partner	Earned Revenue	Expenses
03	Library of Congress	$ -	$ 23
04	Government Printing Office	-	1,902
12	Department of Agriculture & NFC	-	1
13	Department of Commerce	-	61
14	Department of Interior	-	1,484
15	Department Of Justice	72	38
16	**Department of Labor**		
	Workman's Compensation		146
	Other		747
18	United States Postal Service	-	704
19	U. S. State of Department	110	8
20	**Department of Treasury**		
	Bureau of Public Debt	-	1,214,175
	Financial Mang. Svc.	843,627	-
	Imputed Costs	-	9,551
	Other	310	11
21	Department of Army	-	7
24	**Office of Personnel Management**		
	Health	-	6,294
	Life	-	236
	Retirement	-	14,179
	Other	-	622
47	General Services Administration	-	35,163
58	Federal Emergency Management Agency	-	37
69	U. S. Coast Guard Finance Ctr.	153	-
75	Federal Occupational Health	-	53
97	National Security Agency	450	-
99	General Fund/Other	-	7,022
		$ 844,722	$ 1,292,464

Intragovernmental Non-Exchange Revenue

The FCC does not have intragovernmental non-exchange revenue. All of the FCC's non-exchange revenues are public, which includes collections attributable to civil monetary penalties and the Universal Service Fund.

Federal Communications Commission
Required Supplementary Information
September 30, 2001 and 2000

DEFERRED MAINTENANCE

To determine the estimated cost of deferred maintenance in fiscal year 2000, FCC contracted with professional building inspectors to inspect its real property holdings including buildings and structures. The inspection reports were, in most cases, comprehensive reviews of the buildings and ground conditions and included all items that required attention, whether critical to the functionality of the building or more of a cosmetic nature. In assessing deferred maintenance in fiscal year 2001, FCC reviewed the prior year report and updated it for items completed and newly identified projects. The estimated deferred maintenance for FY 2001 and FY 2000 are $1.6 million and $1.7 million, respectively.

FCC intends to review the deferred maintenance items on a quarterly basis to determine which items should be funded and whether funds are available to support the work. Using the inspection reports and cost estimates as a baseline, FCC also intends to create a spreadsheet showing a year-by-year schedule of maintenance and replacement items to assist in budget planning.

Federal Communications Commission
Consolidating Balance Sheet
As of September 30, 2001
(dollars in thousands)

	FCC	USF	TOTAL
ASSETS			
Intragovernmental			
Fund Balance with Treasury (Note 2)	$ 4,058,202	$ -	$ 4,058,202
Accounts Receivable, net (Note 5)	-	-	-
Investments (Note 4)	-	-	-
Total Intragovernmental	4,058,202	-	4,058,202
Cash and Other Monetary Assets (Note 3)	7,587	1,594,667	1,602,254
Investments (Note 4)	-	652,571	652,571
Accounts Receivable, net (Note 5)	223,837	549,241	773,078
Interest Receivable	2	7,887	7,889
Loans Receivable, net (Note 6)	5,972,496	-	5,972,496
Forfeited Property (Note 7)	-	-	-
Property, Plant, and Equipment, net (Note 8)	35,318	-	35,318
Total Assets	10,297,442	2,804,366	13,101,808
LIABILITIES			
Intragovernmental			
Liability for Borrowings from Treasury (Note 9)	$ 6,109,604	$ -	6,109,604
Other Liabilities (Note 13)	851,592	-	851,592
Total Intragovernmental	6,961,196	-	6,961,196
Accounts Payable (Note 10)	14,878	379,743	394,621
Deferred Revenue (Note 12)	3,304,671	-	3,304,671
Payable to Providers (Note 14)	-	-	-
Other Debt (Note 11)	125,274	-	125,274
Other Liabilities (Note 13)	37,319	-	37,319
Accrued Unfunded Leave	13,357	-	13,357
Total Liabilities	10,456,695	379,743	10,836,438
Commitments and Contingencies (Note 21)			
NET POSITION			
Unexpended Appropriations (Note 16)	$ 24,012	$ -	24,012
Cumulative Results of Operations	(183,265)	2,424,623	2,241,358
Total Net Position	(159,253)	2,424,623	2,265,370
Total Liabilities and Net Position	$ 10,297,442	$ 2,804,366	$ 13,101,808

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidating Statement of Net Costs
For the Periods Ended September 30, 2001
(dollars in thousands)

	FCC	USF	TOTAL
PROGRAM COSTS:			
Licensing			
Program Costs			
Intragovernmental	$ 19,209	$ -	$ 19,209
With the Public	59,158	-	59,158
Less: Earned Revenues	(86,901)	-	(86,901)
Net Program Costs	(8,534)	-	(8,534)
Competition			
Program Costs			
Intragovernmental	$ 21,146	$ -	$ 21,146
With the Public	65,149	-	65,149
Less: Earned Revenues	(94,876)	-	(94,876)
Net Program Costs	(8,581)	-	(8,581)
Enforcement			
Program Costs			
Intragovernmental	$ 18,100	$ -	$ 18,100
With the Public	55,734	-	55,734
Less: Earned Revenues	(80,553)	-	(80,553)
Net Program Costs	(6,719)	-	(6,719)
Consumer Information			
Program Costs			
Intragovernmental	$ 3,685	$ -	$ 3,685
With the Public	11,166	-	11,166
Less: Earned Revenues	(16,493)	-	(16,493)
Net Program Costs	(1,642)	-	(1,642)
Spectrum Management			
Program Costs			
Intragovernmental	$ 6,598	$ -	$ 6,598
With the Public	20,126	-	20,126
Less: Earned Revenues	(29,509)	-	(29,509)
Net Program Costs	(2,785)	-	(2,785)
Universal Service			
Program Costs			
Intragovernmental	-	$ -	$ -
With the Public	-	4,980,967 -	4,980,967
Less: Earned Revenues	-	-	-
Net Program Costs	-	4,980,967	4,980,967
Credit Reform			
Program Costs			
Intragovernmental	$ 1,214,175	$ -	$ 1,214,175
With the Public	7,965,866	-	7,965,866
Less: Earned Revenues	(5,603,670)	-	(5,603,670)
Net Program Costs	3,576,371	-	3,576,371
Total Net Program Costs	$ 3,548,110	$ 4,980,967	$ 8,529,077
UNASSIGNED COSTS:			
Imputed Costs	9,551	-	9,551
Depreciation	11,662	-	11,662
Telecommunications Development	19,852	-	19,852
Other Expenses	1,036	-	1,036
Total Unassigned Costs	$ 42,101	$ -	$ 42,101
UNNASIGNED REVENUE			
Telecommunications Development	(19,852)	$ -	(19,852)
Net Cost of Operations	$ 3,570,359	$ 4,980,967	$ 8,551,326

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2001
(dollars in thousands)

	FCC	USF	TOTAL
Net Cost of Operations	$ 3,570,359	$ 4,980,967	$ 8,551,326
Financing Sources:			
Appropriations Used (Note 18)	3,469,300	-	3,469,300
Universal Service Fund Nonexchange Revenue	-	5,352,740	5,352,740
Donations	88	-	88
Imputed Financing	9,551	-	9,551
Transfers In	5,964	-	5,964
Transfers Out	(30,017)	-	(30,017)
Downward Subsidy Re-estimate	-	-	-
Loss	(107)	-	(107)
Total Financing Sources	3,454,779	5,352,740	8,807,519
Net Results of Operations before Change in Accounting Principle	(115,580)	371,773	256,193
Cumulative Effect of Change in Accounting Principal (Note 28)		2,052,850	2,052,850
Net Results of Operations	(115,580)	2,424,623	2,309,043
Prior Period Adjustments (Note 19)	2,589		2,589
Cancelled Appropriations	(2,323)	-	(2,323)
Change in Cumulative Results of Operations	(115,314)	2,424,623	2,309,309
Increase/(Decrease) in Unexpended Appropriations	(6,098,679)	-	(6,098,679)
Change in Net Position	(6,213,993)	2,424,623	(3,789,370)
Net Position - Beginning of Period	6,054,740	-	6,054,740
Net Position - End of Period	$ (159,253)	$ 2,424,623	$ 2,265,370

The accompanying notes are an integral part of these statements

Federal Communications Commission
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2001
(dollars in thousands)

	FCC	USF	TOTAL
Budgetary Resources:			
Budget Authority	$ 24,270,073	$ 5,290,474	$ 29,560,547
Unobligated Balances - Beginning of Period	1,858,746	1,952,118	3,810,864
Spending Authority from Offsetting Collections	25,554,843	-	25,554,843
Adjustments	(26,095,268)	-	(26,095,268)
Total Budgetary Resources	$ 25,588,394	$ 7,242,592	$ 32,830,986
Status of Budgetary Resources:			
Obligations Incurred	$ 25,548,168	$ 4,946,717	$ 30,494,885
Unobligated Balances - Available	75	2,295,875	2,295,950
Unobligated Balances - Not Available	40,151	-	40,151
Total Status of Budgetary Resources	$ 25,588,394	$ 7,242,592	$ 32,830,986
Outlays:			
Obligations Incurred	$ 25,548,168	$ 4,946,717	$ 30,494,885
Less: Spending Authority from Offsetting Collections and Adjustments	(25,558,950)	-	(25,558,950)
Obligated Balance, net - Beginning of Period	45,148	-	45,148
Less: Obligated Balance, net - End of Period	(63,770)	-	(63,770)
Total Outlays	$ (29,404)	$ 4,946,717	$ 4,917,313

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidating Statement of Financing
For the Year Ended September 30, 2001
(dollars in thousands)

	FCC	USF	TOTAL
Obligations and Nonbudgetary Resources			
Obligations Incurred	$ 25,548,168	$ 4,946,717	$ 30,494,885
Less: Spending Authority for Offsetting Collections and Adjustments	(25,554,810)	-	(25,554,810)
Receivables from Federal Sources	3	-	3
Change in Unfilled Customer Orders	(1)	-	(1)
Recoveries of Prior Year Obligations	(4,108)	-	(4,108)
Financing Imputed for Cost Subsidies	9,551	-	9,551
Transfers in/out without reimbursement	-	-	-
Exchange Revenue Not in the Budget	(130,376)	-	(130,376)
Other	(893)		(893)
Total Obligations as Adjusted, and Nonbudgetary Resources	$ (132,466)	$ 4,946,717	$ 4,814,251
Resources That Do Not Fund Net Cost Of Operations			
Change in Amount of Goods, Services, and Benefits Ordered But Not Yet Received or Provided	(20,437)	(6,011)	(26,448)
Costs Capitalized on the Balance Sheet	(6,516)	-	(6,516)
Collections that decrease/increase credit program receivables/liabilties	9,243,238	-	9,243,238
Financing Sources that Fund Costs of Prior Periods	(10,664)	-	(10,664)
Other	876	-	876
Total Resources That Do Not Fund Net Cost of Operations	9,206,497	(6,011)	9,200,486
Costs That Do Not Require Resources			
Depreciation and Amortization Expense	11,662		11,662
Subsidy Amortization	591,430		591,430
Bad Debts	(64)	40,261	40,197
Changes in Other Accrued Liabilities	70	-	70
Loss on Future Revenues	(177)	-	(177)
Downward Subsidy Re-estimate	(6,236,616)	-	(6,236,616)
Total Costs That Do Not Require Resources	(5,633,695)	40,261	(5,593,434)
Financing Sources Yet to be Provided (Note 25)	130,023	-	130,023
Net Cost of Operations	$ 3,570,359	$ 4,980,967	$ 8,551,326

The accompanying notes are an integral part of these statements

Federal Communications Commission
Required Supplementary Information
For the Years ended September 30, 2001 and 2000
(dollars in thousands)

STATEMENT OF BUDGETARY RESOURCES

The Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Federal Agency Financial Statements*, as amended, requires additional disclosure of an entity's budgetary information by major budgetary account if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. The major budget accounts include the FCC and the Universal Service Fund. Reflected in the chart below are the major accounts of the FCC that are aggregated and presented in the FY 2000 and FY 2001 Combined Statement of Budgetary Resources.

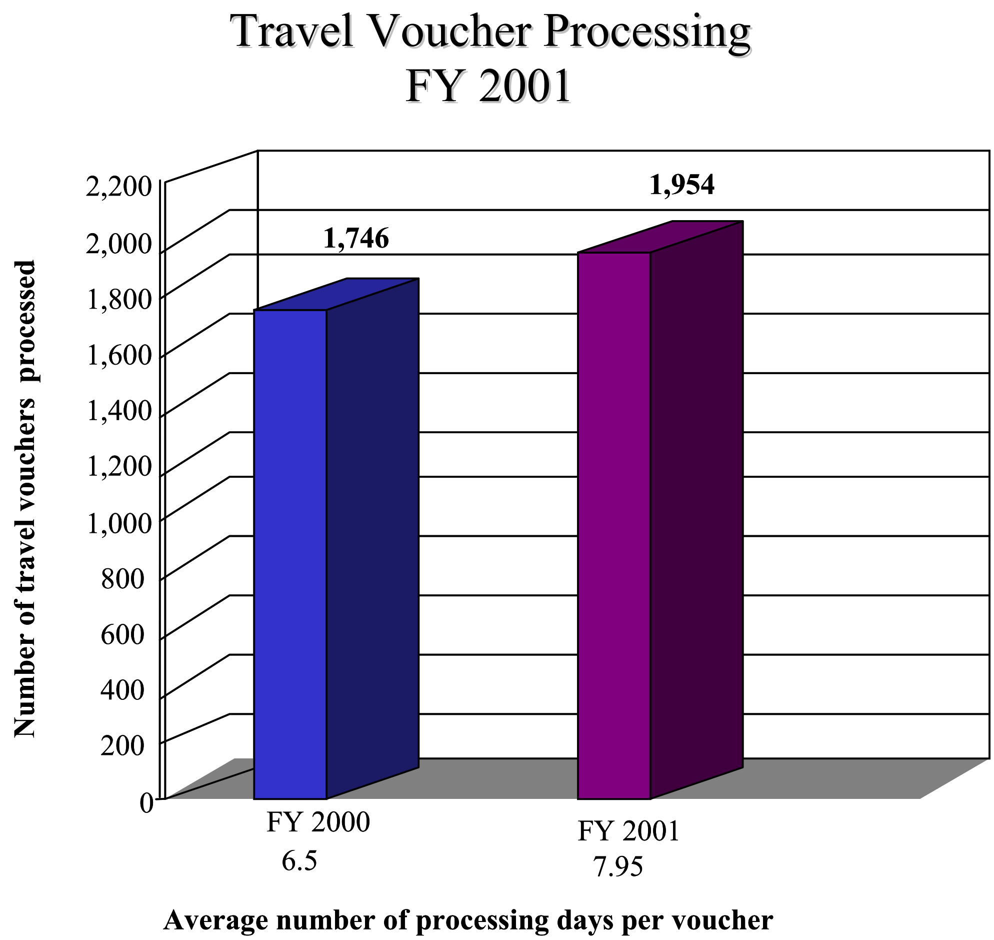
FY 2001	**S&E**	**Credit Reform**	**Auctions**	**USF**	**Total**
Budgetary Resources:					
Budget authority (line 1)	29,788	24,240,285	-	5,290,474	29,560,547
Unobligated balances - beginning of period (line 2A)	18,389	1,830,868	9,489	1,952,118	3,810,864
Spending authority from offsetting collections (line 3)	207,896	25,279,421	67,526		25,554,843
Adjustments (lines 4-6)	(2,662)	(26,091,927)	(679)		(26,095,268)
Total budgetary resources (line 7)	253,411	25,258,647	76,336	7,242,592	32,830,986
Status of Budgetary Resources:					
Obligations incurred (line 8)	240,960	25,240,233	66,975	4,946,717	30,494,885
Unobligated balances - available (line 9)	(164)	239	-	2,295,875	2,295,950
Unobligated balances - not available (line 10)	12,615	18,175	9,361		40,151
Total, status of budgetary resources (line 11)	253,411	25,258,647	76,336	7,242,592	32,830,986
Outlays:					
Obligations incurred (line 8)	240,960	25,240,233	66,975	4,946,717	30,494,885
Less: spending authority from offsetting collections and adjustments (lines 3A, B, D, & 4A)	(212,683)	(25,279,420)	(66,847)		(25,558,950)
Obligated balance, net - beginning of period (line 12)	28,625	1,857	14,666		45,148
Obligated balance, transferred - net (line 13)	-	-	-		-
Less: obligated balance, net - end of period (line 14)	(41,719)	(2,700)	(19,351)		(63,770)
Total outlays (line 15)	15,183	(40,030)	(4,557)	4,946,717	4,917,313

FY 2000	S&E	Credit Reform	Auctions	Total
Budgetary Resources:				
Budget authority (line 1)	336,683	1,788,542	-	2,125,225
Unobligated balances - beginning of period (line 2A)	17,450	40,535	12,832	70,817
Spending authority from offsetting collections (line 3)	186,747	2,680,113	45,407	2,912,267
Adjustments (lines 4-6)	(167,358)	(419,781)	3,519	(583,620)
Total budgetary resources (line 7)	373,522	4,089,409	61,758	4,524,689
Status of Budgetary Resources:				
Obligations incurred (line 8)	355,132	2,258,540	52,271	2,665,943
Unobligated balances - available (line 9)	2,023	1,820,733	172	1,822,928
Unobligated balances - not available (line 10)	16,367	10,135	9,316	35,818
Total, status of budgetary resources (line 11)	373,522	4,089,408	61,759	4,524,689
Outlays:				
Obligations incurred (line 8)	355,132	2,258,540	52,271	2,665,943
Less: spending authority from offsetting collections and adjustments (lines 3A, B, D, & 4A)	(211,846)	(2,680,113)	(48,927)	(2,940,886)
Obligated balance, net - beginning of period (line 12)	37,528	-	19,137	56,665
Obligated balance, transferred - net (line 13)	-	-	-	-
Less: obligated balance, net - end of period (line 14)	(28,625)	(1,856)	(14,666)	(45,147)
Total outlays (line 15)	152,189	(423,429)	7,815	(263,425)

Other Accompanying Information

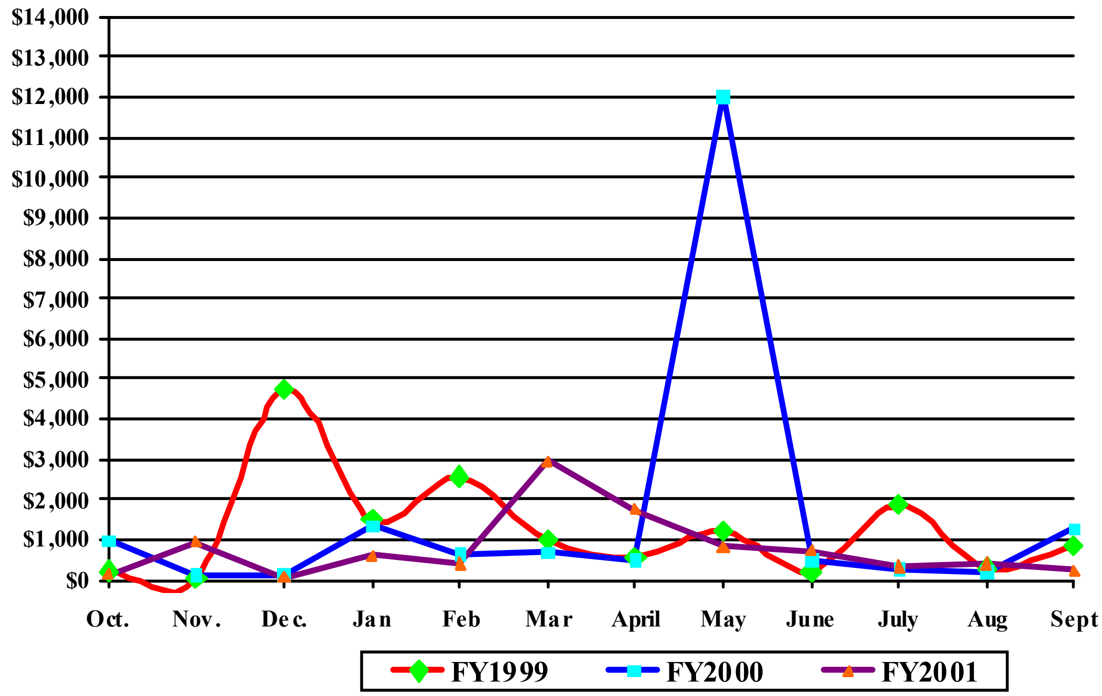
A complete list of the FCC's performance measures and the results of the FCC's FY 2001 performance can be found in the FY 2001 Annual Program Performance Report, which was issued on March 29, 2002. This report can be located on the FCC webpage at **http://www.fcc.gov/annual_reports.html**.

The following additional financial measures are included to highlight the FCC's performance in the areas of travel voucher processing, prompt payment interest, remittance over secure Internet (e-commerce/ROSIE), electronic fund transfers (EFT), application and licensing fees, spectrum auctions, and budget figures. The Associate Managing Director of Financial Operations monitors these financial measures.



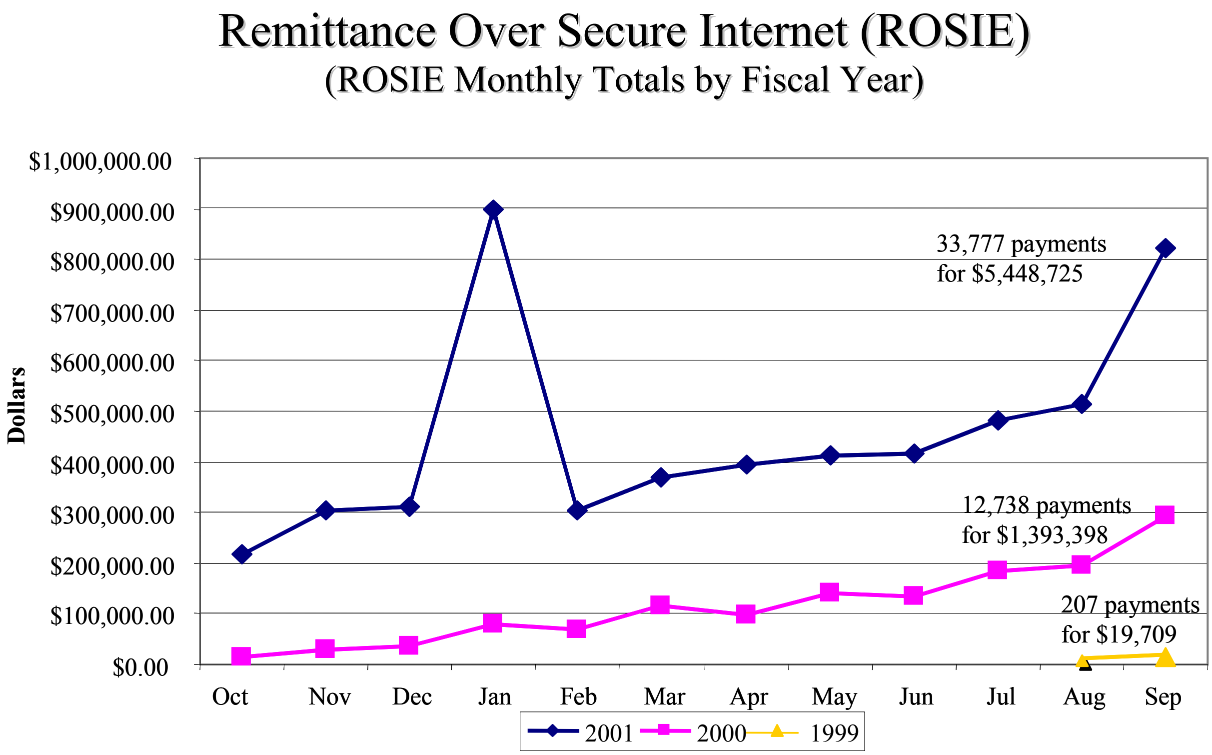
The FCC's travel voucher processing goal of ten working days begins with the receipt of a correct voucher with all proper supporting documentation. The Federal Travel Regulations require Federal agencies to reimburse employees within 30 days of receipt of a proper voucher. During FY 2001, a total of 1,954 travel vouchers were processed with an average processing time of 7.95 working days. In FY 2000, fewer travel vouchers were processed, a total of 1,746, with an average processing time of 6.5 working days.

Prompt Payment Interest



The total prompt payment interest incurred during FY 2001 was $9,603. The FCC processed 4,802 invoices totaling $64,565,269 during FY 2001 of which 912 invoices, totaling $6,333,546, were subject to the late payment provisions of the Prompt Payment Act. During FY 2001, there was an increase in purchases being processed by credit cards, therefore resulting in fewer invoices.

In FY 2000, total prompt payment interest incurred was $20,123. Included in this total was $12,051 paid on travel from the central billing account in May due to a contract dispute between the General Services Administrator (GSA) and the card processor. The total number of invoices processed in FY 2000 was 6,421, totaling $59,420,521, of which 1,453 invoices, totaling $5,285,128, were subject to the late payment provisions of the Prompt Payment Act.



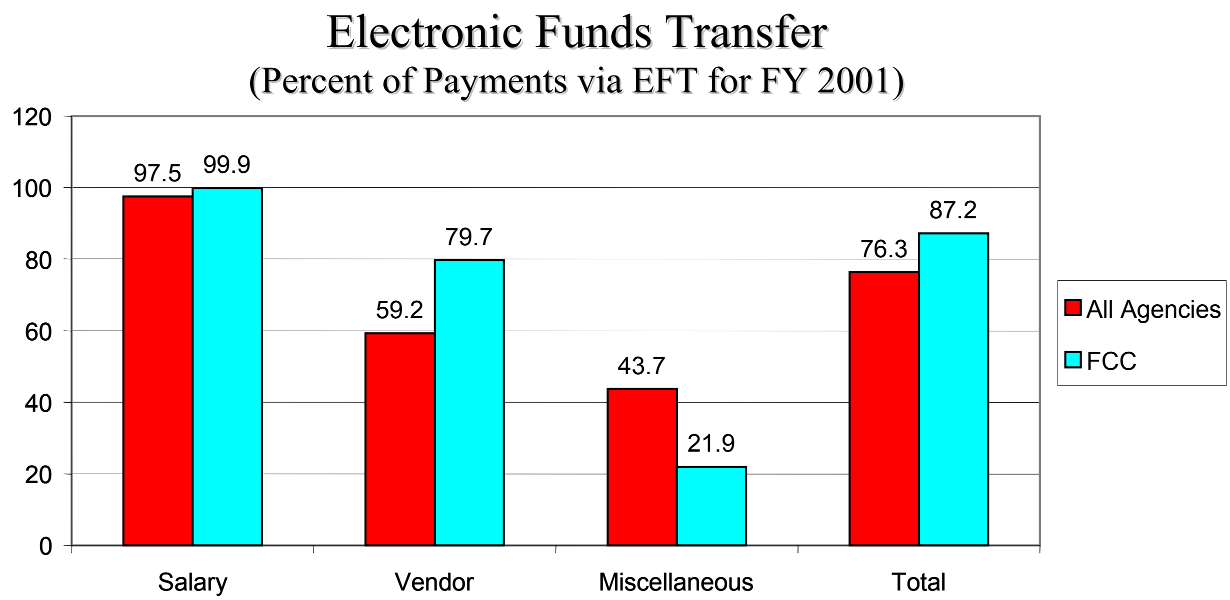
ROSIE, Remittance Over Secure Internet (E-commerce), is a payment system, which allows license applicants to pay their application fees electronically via credit card. The system, built to Department of the Treasury security specifications, employs the latest encryption technology and architecture to safeguard data. ROSIE is accessed via links in the licensing systems, which offer the electronic credit card payment option.

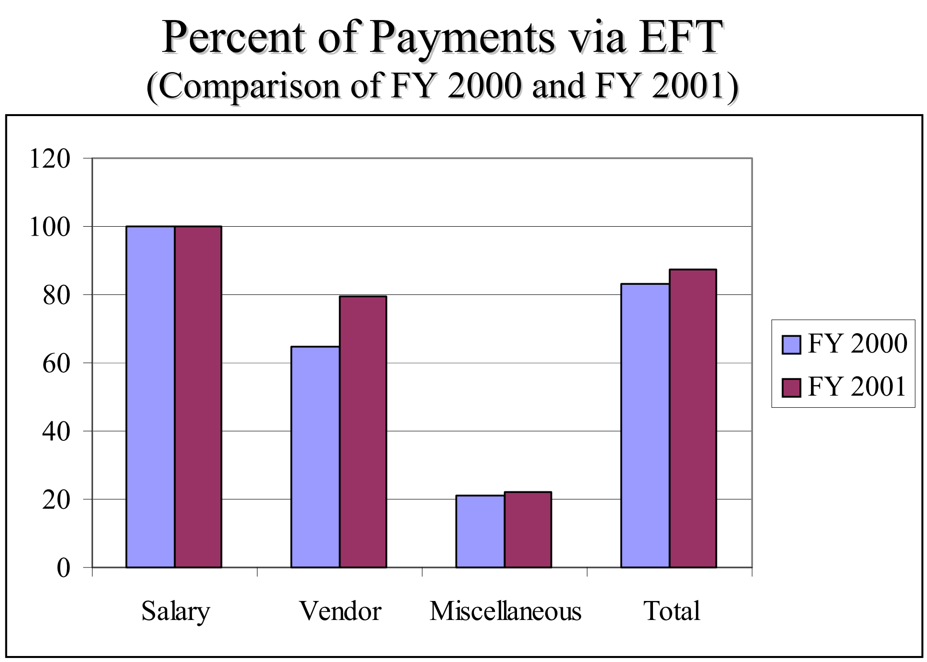
ROSIE was implemented in August 1999, and in that month it processed 108 payments for $6,648. In September 1999, ROSIE processed an additional 99 payments for $13,061. In FY 2000, 12,738 payments for $1,393,398 were processed.[27]

ROSIE usage has continued to steadily increase. By the end of FY 2001, ROSIE was processing 3,500 payments of about $500,000 in an average month. In FY 2001, 33,777 payments for a total of $5,448,725 were processed, with an especially high volume of licenses in January and September. The spike in January was attributable to a high number of microwave licenses, which expired at the end of January and required renewal by February 1. The upsurge in September was attributable to payments of regulatory fees.

The FCC has made enhancements to strengthen security and make ROSIE more customer-friendly. The FCC regards this venture into electronic commerce as a great success and is planning to expand the on-line payment option to include all payments made to the agency.

[27] The FY 2000 figures differ from those included in the FY 2000 Annual Financial Report due to a different computer retrieval process to extract the supporting data for the months of June and July, 2000.

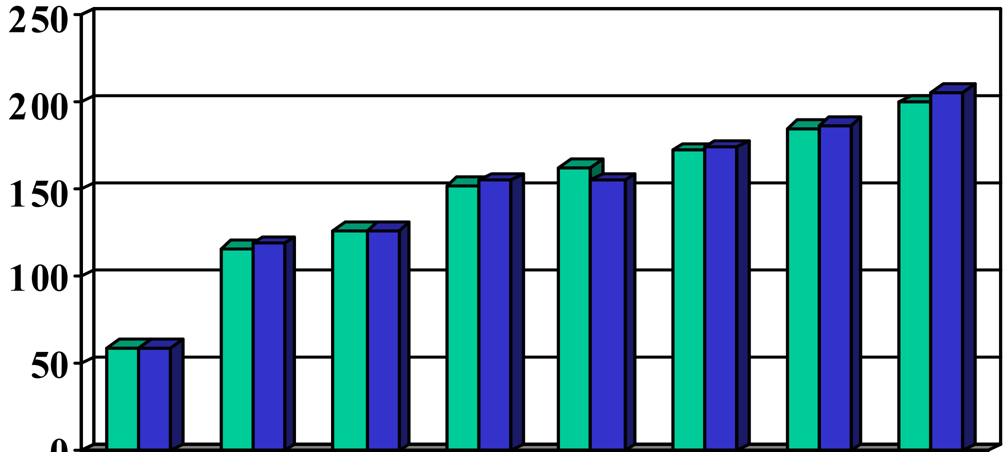




The FCC has worked to increase the number of payments via Electronic Funds Transfer (EFT). Through various outreach programs, such as including letters to vendors with contract and purchase order mailings, offering e-mail notifications of EFT payments, and telephoning vendors, the percentage of vendor payments via EFT has increased from 64.9% in FY 2000[28] to 79.7% in FY 2001. There is also an initiative in progress to increase the percentage of fee refunds made via EFT. Currently, all refunds are paid by check and comprise 96% of FCC's miscellaneous payments. The Commission is endeavoring to convert these check payments to EFT by capturing bank information from the applicant's remittance. The FCC hopes to implement this capability during FY 2002.

[28] This figure differs from the FY 2000 Annual Financial Report because it represents the average over the year, rather than the September 2000 figure.

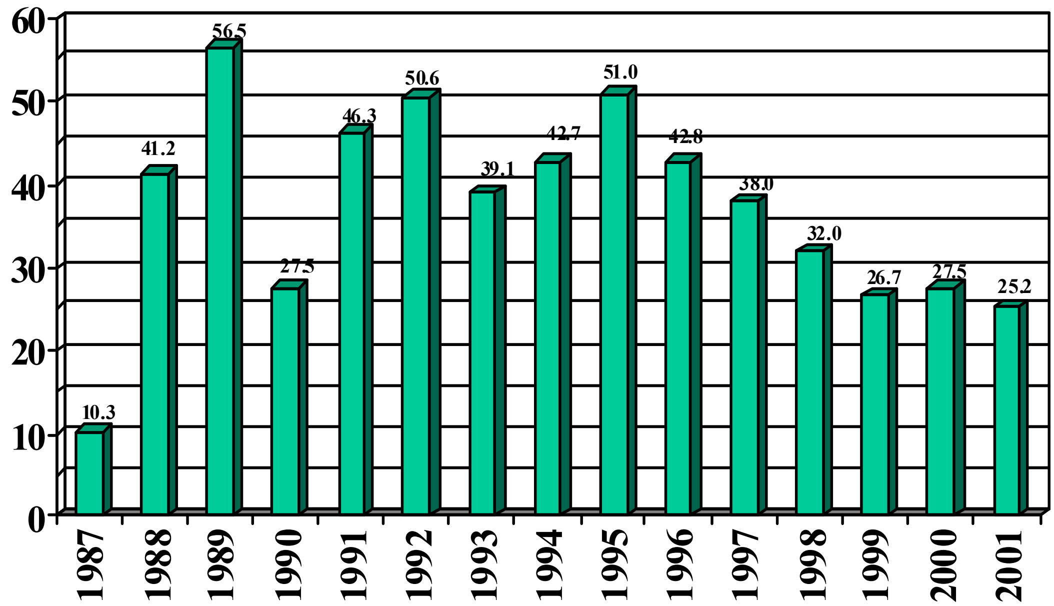
Regulatory Fees
(FY 1994 to Present in $ Millions)



	1994	1995	1996	1997	1998	1999	2000	2001
Expected	60.4	116.4	126.4	152.5	162.5	172.5	185.7	200.1
Collected	58.7	119.3	126.5	155.9	155.1	174.3	187.2	206.7

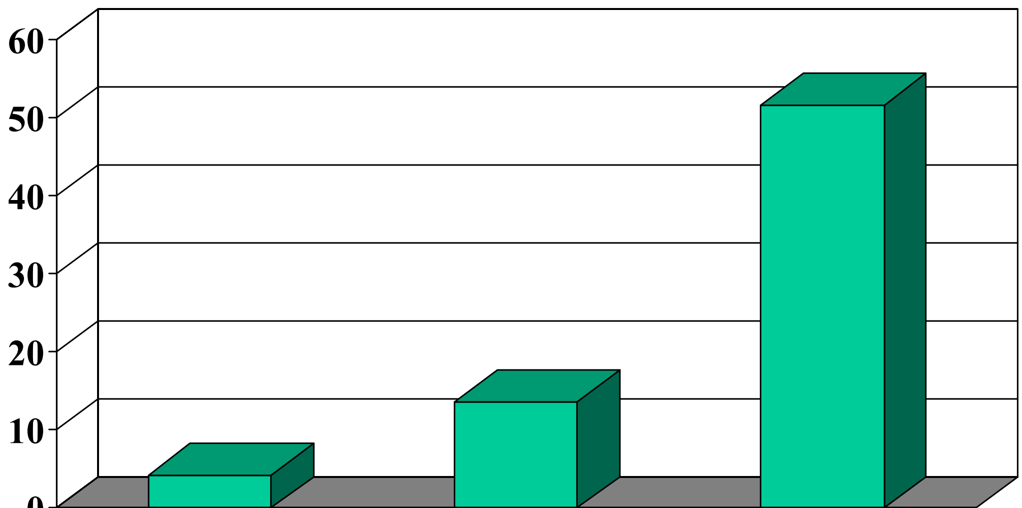
The Fee Collection Program authorizes the Commission to prescribe charges for certain regulatory services it provides to many of the communications entities within its jurisdiction. The chart above shows the Regulatory Fees collected since implementation in 1994.

Authorization of Services
(FY 1987 to Present in $ Millions)



The Congressionally-mandated Fee Collection Program was implemented on April 1, 1987. The chart above shows filing fees collected since the inception of the Fee Collection Program to date.

Fines and Forfeitures
(FY 1999 to Present in $ Millions)



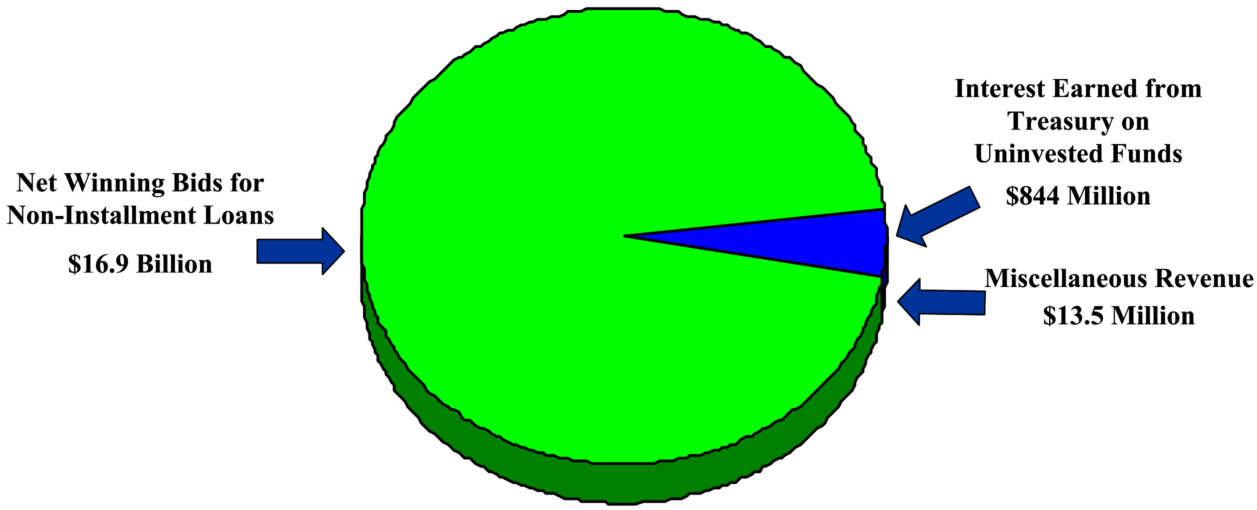
	1999	2000	2001
Collected	4.2	13.7	51.7

In FY 2001, collections for fines and forfeitures totaled $51,687,758. In FY 2000, the total amount collected was $13,749,209, and in FY 1999, $4,160,504.

In 1999, the Commission approved a corporate merger. In its order, the Commission adopted a "Performance Assurance Plan" designed to promote the quality of service provided by one company to competitive carriers. The Performance Assurance Plan requires the company to make voluntary payments to the U.S. Treasury if its wholesale service quality falls below certain set standards. Because the performance fell below the standards specified in the Commission's order, the company made substantial payments to the U.S. Treasury in FY 2001.

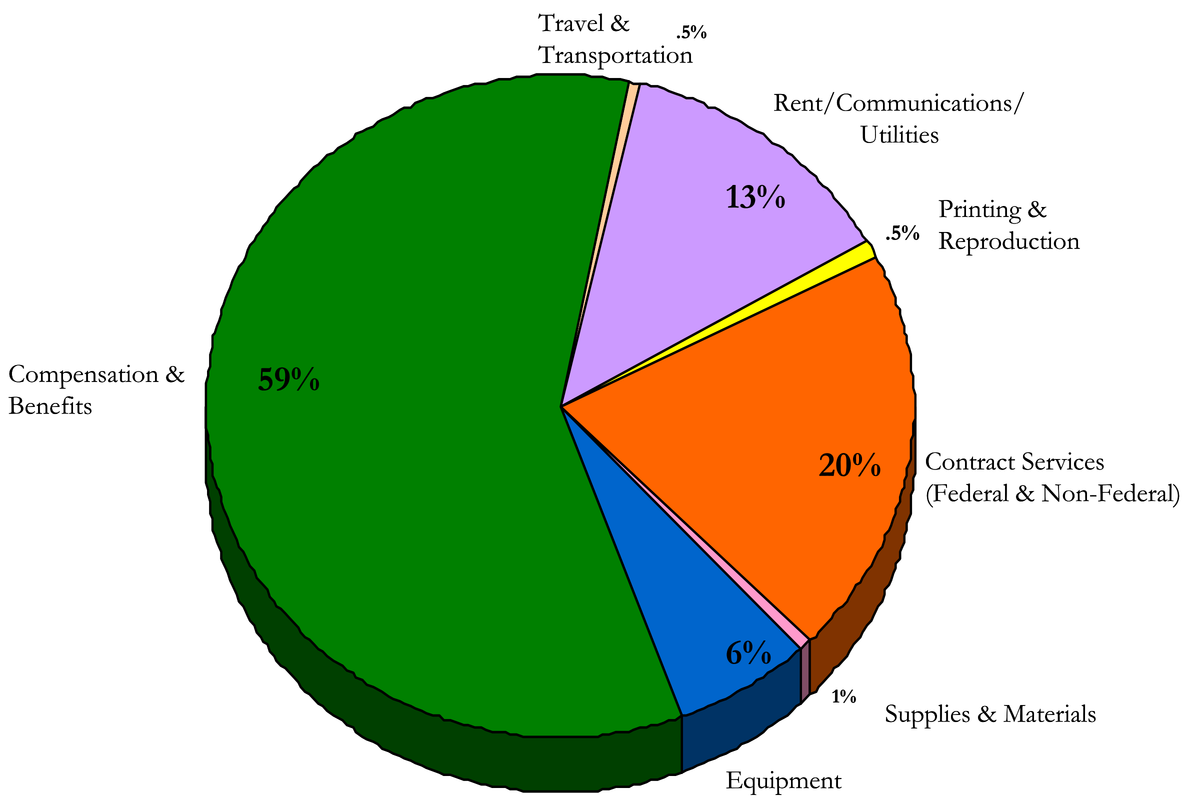
Similar requirements were applicable to a second company. In calendar year 2001, their performance also fell below the standards established in the Commission's order and were required to submit payments to the U.S. Treasury.

FY 2001 Collected & Anticipated Cash Flows Generated By Auctions $17.8 Billion



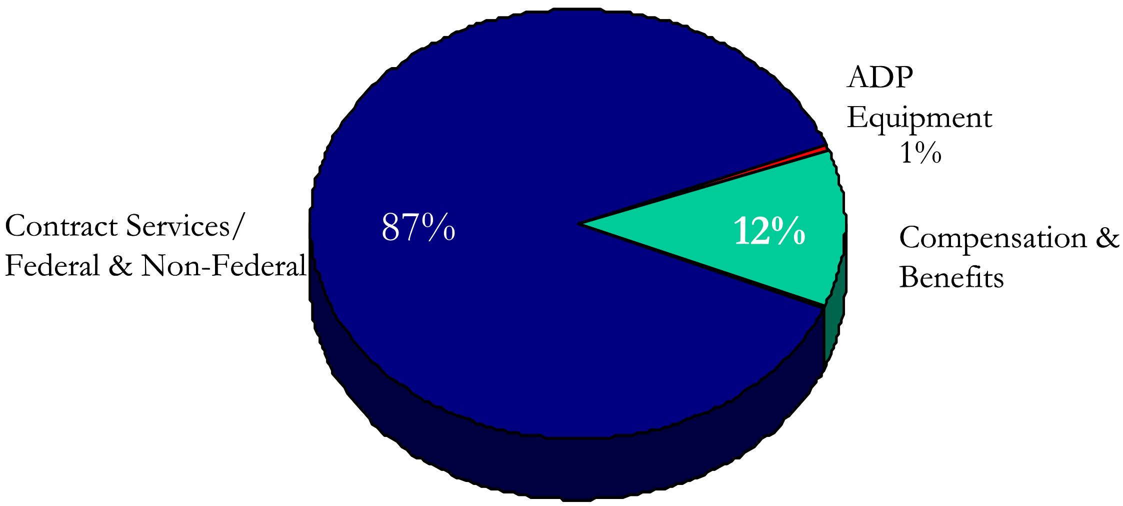
Net winning bids represent the total amount expected to be collected from FY 2001 Spectrum Auctions. Auction 35 accounts for $16.8 billion of the total. Interest earned is the actual amount of interest collected from Treasury in FY 2001 related to Spectrum Auction Loans. Miscellaneous revenue includes assessed penalties, late fees, and unjust enrichments collected in FY 2001.

FY 2001 BA Distribution by Object Class



This chart illustrates the distribution of obligations by budget category in FY 2001 (excluding the Universal Service Funds and the Auctions Loan Program administrative funds). These obligations are funded from multiple funding sources including annual appropriations, offsetting collections (regulatory fees, interagency and travel reimbursements), Auctions Loan Program reimbursements, and gifts and bequests.

FY 2001 BA Distribution by Object Class
Credit Program Account (0300)



This chart illustrates the distribution of administrative cost by budgetary category required to provide for Auctions Loan Program activities in FY 2001.

GLOSSARY OF ACRONYMS

3G	Third generation (wireless systems)
AMD-FO	Associate Managing Director – Financial Operations
BA	Budget Authority
CCB	Common Carrier Bureau
CFO	Chief Financial Officer
CIB	Consumer Information Bureau
CIMS	Consumer Information Management System
CLEC	Competitive local exchange carrier
CMP	Civil monetary penalties
CORES	Commission Registration System
COTS	Commercial off-the-shelf
CPNI	Customer Proprietary Network Information
CSB	Cable Services Bureau
CSRS	Civil Service Retirement System
DOI	Department of the Interior
DoL	Department of Labor
DOJ	Department of Justice
EB	Enforcement Bureau
EFT	Electronic Funds Transfer
EPA	Environmental Protection Agency
FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FCC	Federal Communications Commission
FCRA	Federal Credit Reform Act
FERS	Federal Employee Retirement System
FFS	Federal Financial System
FTC	Federal Trade Commission
FTE	Full-time equivalents
FY	Fiscal year
GAAP	Generally accepted accounting principles
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration

IB	International Bureau
ICASS	International Cooperative Administrative Support Services
ICB	Information Collection Budget
ILEC	Incumbent local exchange carrier
IP	Internet Protocol
IT	Information technology
IVDS	Interactive Video and Data Service
JFMIP	Joint Financial Management Improvement Program
LEC	Local exchange carrier
LNPA	Local Number Portability Administrator
MCAS	Managerial Cost Accounting System
MD&A	Management's Discussion & Analysis
MDS	Multipoint Distribution Service
MMB	Mass Media Bureau
MVPD	Multichannel video program distribution
NAL	Notice of Apparent Liability
NANPA	North American Numbering Plan Administrator
NBC	National Business Center
NCES	National Center for Education Statistics
NECA	National Exchange Carriers Association
NFC	National Finance Center of the Department of Agriculture
NLS	Nortridge Loan System
NPRM	Notice of Proposed Rulemaking
NTIA	National Telecommunications and Information Administration
OALJ	Office of Administrative Law Judges
OCBO	Office of Communications and Business Opportunities
OET	Office of Engineering and Technology
OGC	Office of the General Counsel
OIG	Office of Inspector General
OLIA	Office of Legislative and Intergovernmental Affairs
OMB	Office of Management and Budget
OMD	Office of the Managing Director
OMR	Office of Media Relations
OPM	Office of Personnel Management

OPP	Office of Plans and Policy
OWD	Office of Workplace Diversity
PCS	Personal Communications Service
PERM	Performance Evaluations and Records Management
PP&E	Property, Plant and Equipment
PY	Prior Year
QPRR	Quarterly Performance and Results Review
RAMIS	Revenue & Accounting Management Information System
ROSIE	Remittance Over Secure Internet
RSI	Required Supplementary Information
SBR	Statement of Budgetary Resources
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SMR	Specialized Mobile Radio
SOD	Speed of Disposal
TDA	Telecommunications Development Account
TDF	Telecommunications Development Fund
Treasury	United States Department of the Treasury
TRS	Telecommunications Relay Service (Fund)
U.S.	United States
USAC	Universal Service Administrative Company
USCS	United States Customs Service
USDA	United States Department of Agriculture
USF	Universal Service Fund
USF Program	The four support mechanisms of the USF and the TRS
WTB	Wireless Telecommunications Bureau
WTO	World Trade Organization
Y2K	Year 2000

SECTION V

STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

SECTION V STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

Starting with fiscal year 1999, the FCC's financial statements have been subjected to audit pursuant to the Chief Financial Officers Act of 1990, as amended. This matrix consists of prior year financial statement audit recommendations to correct identified internal control weaknesses and their resolution status at the completion of the FY 2001 audit. A determination as to the status of each recommendation was based on the audit fieldwork at FCC and discussion with FCC officials.

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
MATERIAL WEAKNESSES:					
I. Financial Reporting (Repeat Condition) **A. Develop an Integrated Financial Management System**	1. Conduct an overall assessment of the financial management systems in use and the degree of integration needed. Prepare a plan outlining what the steps are (i.e., processes, data stewardship, management information, systems architecture, internal control), the timelines for completion, and the estimated cost to implement and maintain and integrated system.		X		
	2. Train FFS users to use the application software currently employed to ensure users can generate common widely-used reports (except for special reports) that are needed for account analysis without having to request the report to be generated by another user (i.e., obtain the information needed efficiently and effectively through electronic means).		X		
B. Establish and Maintain an Adequate Audit Trail Used in Preparing the Financial Statements	3. Establish and maintain an adequate audit trail used in preparing the financial statements. Modify as deemed appropriate and apply commonly used SGL crosswalks in preparing the principal financial statements.		X		
	4. Identify and document in the accounting policies and procedures the transactions requiring elimination at the consolidated level and provide pro-forma eliminating entries.		X		
C. Correct and Update Federal Financial System Setup and Posting Model Definitions (Modified Repeat Condition)	5. For intergovernmental transactions, accumulate the detail and summary information for each activity by trading partner by employing the following: a) Incorporate the trading partner code as part of the account coding classification.		X		
	b) Incorporate the trading partner code in	X			

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	the customer/vendor identification code in accounts receivable/accounts payable systems.				
	c) Incorporate the trading partner code into data captured when transactions are entered into accounting systems.	X			
	6. Update and correct FFS to comply with the transaction posting models consistent with SGL guidance and policies when recording and classifying transactions. Ensure that changes made to FFS are tested and accepted before they go into live production.		X		
D. Improve Analysis of Budgetary Accounts	7. Review all frequently used transaction types and transaction codes to ensure that the accounting entries (budgetary and proprietary) are correct.		X		
E. Record Activities Timely and Prepare and Analyze Financial Activity (Modified Repeat Condition)	8. Record transactions on a timely basis. Proper cut-off should be implemented when preparing interim financial statements.		X		
F. Formalize Financial Reporting Processes and Responsibilities in the Preparation of Financial Statements (Modified Repeat Condition)	9. Update and circulate to appropriate employees the Financial Coding Handbook. Ensure that appropriate employees receive adequate training.	X			
G. Inadequate Discussion in Management's Discussion and Analysis	10. Ensure compliance with the standards required in preparing MD&A as outlined in SFFAS 15. Specifically, discussions related to the future effects on the entity of existing, currently know demands, risks, uncertainties, events, conditions and trends should be included or expanded.	X			
H. Combination of Reportable Conditions May Materially Impact Financial Statements (Repeat Condition)	11. Finalize written policies and procedures on the financial reporting processes. The written policies should provide sufficient guidance for the year-end closing of the general ledger as well as interim and annual financial statements' preparation and analysis. The procedures should at least address the following issues:		X		
	a) Prepare and review a complete set of financial statements in accordance with generally accepted accounting principles at least quarterly.		X		
	b) Establish milestones by setting dates for critical phases such as general ledger closing, preparation of statements, notes,	X			

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	and accountability report, quality control review, etc.				
	c) Collect common closing and adjusting entries in a formal listing, which is used when the general ledger is closed and financial statements are prepared.	X			
	d) Identify the individual who will be involved in the financial reporting process and establishing clearly defined roles and responsibilities for the staff involved in the preparation of interim and year-end financial statements.	X			
	e) Prepare and retain all journal entries in sufficient detail with supporting documentation, and post all journal vouchers in the general ledger.	X			
	f) Retain all documentation supporting the request, purpose and approval of all object class designations. Also, a listing of all current object codes including a statement of the purpose of each code should be maintained and provided to all personnel with the responsibility to initiate, prepare, and approve accounting transactions to ensure that object codes are used appropriately.	X			
	g) Require supervisory review for all entries posted to the general ledger and consolidating financial statements. A supervisor should review revisions to previously approved entries and revised financial statements. All entries should be evidenced in writing.		X		
	h) Prepare and analyze formal monthly reconciliation of subsidiary and summary account balances. FCC should also consider a "formal closing" of all accounts at an interim date(s), which will reduce the level of accounting activity and analysis required at year-end. This "formal closing" entails ensuring that all transactions are recorded in the proper period through the month-end. With complete and timely transaction recording, analysis of all major accounts can be performed effectively.		X		
	i) Utilize established tools (i.e., checklists,	X			

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	implementation guides, etc) available for assistance in financial statement compilation and review.				
	j) Prepare and retain a comprehensive set of files, working papers and other documentation in support of all information included in the financial statements. This documentation should be more self-explanatory than what has been retained in the past. The documentation should be at a supporting detail level where an accountant/auditor can utilize provided documentation for substantiation of reported data without extensive explanation or recreation by the original preparer.	X			
II. Cost Accounting System (Repeat Condition)	12. Review the propriety of the costing methodology and the matching of earned revenue against costs (costing methodologies).			X	
	13. Determine outputs for all responsibility segments as required.			X	
	14. Document the costing methodologies and process in a formal policy and procedures manual or handbook. Management should determine which cost objects to define, the costing methodology to use, the type of costs to include for each reporting or decision making purpose (i.e., full cost), and other items of a similar nature.			X	
	15. Evaluate the adequacy of the cost accounting system or other cost-finding techniques (cost systems) in accumulating and allocating costs, matching revenue, accounting, and generating financial information. The cost systems should meet the minimum requirements outlined in the Joint Financial Management Improvement Program (JFMIP) *Systems Requirements for Managerial Cost Accounting.*		X		
	16. Ensure that appropriate employees of bureaus and offices fully understand the importance of properly classifying costs and are trained on the proper application of the activity codes.		X		

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
III. Universal Service Fund and Telecommunication Relay Service Fund Financial Reporting (Modified Repeat Condition)	17. Document clearly the legal, financial, and operational boundaries of FCC, USF, TRS, USAC, and NECA. With assistance of OGC, USAC, and NECA, FCC management needs to formally define in writing each financial management role and responsibility to avoid confusion and misunderstanding.		X		
	18. Obtain from the OGC a list of laws and regulations applicable to the financial activities of USF and TRS Fund and communicate this information to officials of USAC and NECA. Ensure that USF and TRS Fund financial activities are in compliance with these laws and regulations by reviewing these activities periodically.		X		
	19. Assign one or more staff from FO to obtain an in-depth understanding of USF and TRS Fund operations, including financial operations, and who will work in coordination with Common Carrier Bureau (CCB) to comprehensively review financial operational information provided by USAC and NECA.		X		
	20. Review monthly financial reports provided by USAC and NECA. Request additional information from USAC and NECA as necessary to obtain reasonable assurance that the financial data is reliable.		X		
	21. Develop a formal financial reporting compilation process that adequately addresses issues arising from its consolidating reporting components.		X		
IV. Loans Receivable and Related Accounts (Modified Repeat Condition) **A. FCC Current Loan Subsidiary Ledger System is Inadequate (Modified Repeat Condition)**	22. While RAMIS is not operational and FCC uses the loan models, it should: a) Ensure that access to the loan modules is limited to authorized staff.	X			
	b) Train FCC employees to have adequate knowledge in using and reviewing the loan models. If consultants are responsible for updating and analyzing the loan models, FCC employees should review, at least monthly, the configuration settings and formulas of		X		

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	the loan models to ensure they were not changed. In addition, FCC employees should review the outputs of the spreadsheets.				
	c) Develop written policies and procedures for the use and review of the loan models and related output.		X		
	d) Hardcode or lock cells with formulas in the loan models to prevent inadvertent or unintentional changes.	X			
	e) Physically obtain and keep an official copy of the loan models updated at least monthly since these are FCC's subsidiary records and are maintained by consultants outside of FCC financial management systems. A back-up copy should also be maintained.	X			
	23. Ensure that the loan subsidiary system being developed and tested (RAMIS) is capable of interfacing with other financial management systems.		X		
	24. Ensure that RAMIS meets all the applicable requirements for a direct loan system in the Federal Financial Management System Requirements (FFMSR) issued by JFMIP. One of these requirements is to ensure that the direct loan system can support the following functions: ▪ Loan extension ▪ Account servicing ▪ Department of Treasury cross-servicing ▪ Portfolio management ▪ Delinquent debt collection ▪ Other reporting requirements		X		
B. Reconcile General Ledger to the Subsidiary Ledger Balances (Modified Repeat Condition)	25. Record loan activities promptly to maintain their relevance and value to management in controlling operations and making decisions.		X		
	26. Reconcile general ledger balances to the subsidiary records on a monthly basis.		X		
C. Implement Direct Loan System to Account for All Events in a Loan Cycle (Repeat Condition)	(See recommendations number 23 and 24.)		X		
D. Loan Documentation Needs Improvement (Repeat Condition)	27. Ensure all loan files are kept up-to-date, have consistent information, and contain relevant loan and other documents necessary to conform to private sector standards.		X		

SECTION V **STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT**

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	28. Establish effective controls for transfer of loan data files to the new loan system, and ultimately, to a loan servicer, if employed.		X		
V. Information Technology **A. FCC Is Not In Compliance With OMB Circular No. A-130 requirement for a Comprehensive Security Plan (Modified Repeat Condition)**	29. Establish a comprehensive and integrated security management structure to ensure that FCC's security policy is consistently applied.			X	
	30. Conduct risk assessments for the FCC general support systems and major applications.		X		
	31. Develop and implement security plans for FCC's major application systems and mission-critical general support systems.		X		
	32. Certify and accredit FCC's major applications and general support systems, based on the security plans developed and implemented.		X		
	33. Establish a system to periodically review security controls over FCC's computer systems in accordance with OMB Circular No. A-130, *Management of Federal Information Resources*, Appendix III.		X		
B. FCC Needs Improved Controls to Protect Its Information (Modified Repeat Condition)	34. Strengthen controls over access to protect all mainframe and client server-based resources.		X		
	35. Address inadequacies and inconsistencies in the mainframe and network access request process.		X		
	36. Require periodic review of user privileges to ensure that capabilities are in line with job responsibilities.			X	
	37. Enhance audit trail facility utilization and review.			X	
C. FCC Needs to Accelerate Efforts to Develop and Test its Contingency Plans (Repeat Condition)	38. Develop and implement a FCC-wide security plan as prescribed by OMB Circular No. A-130, *Management of Federal Information Resources*.		X		
	39. Develop and test contingency plans for FCC's major applications, networks, and telecommunications facilities.			X	
	40. Obtain written documentation from FCC's data centers of developed and tested		X		

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	contingency plans and participate in the scheduled tests of the plans.				
	41. Immediately develop a comprehensive contingency plan that integrates the individual plans of its data centers, networks, and telecommunications facilities.			X	
REPORTABLE CONDITIONS:					
VI. Review and Finalize Written Internal Control Documentation for Financial and Administrative Operations (Modified Repeat Condition)	42. Perform a global assessment of the financial and administrative operations that will require a written internal control policies and procedures manual. Consolidate all financial policies and procedures in a manual that is updated through controlled memoranda during the year. Update the manual for the memoranda changes annually or as necessary.		X		
	43. Perform an in-depth review of the draft and final written internal control policies and procedures manual to ensure that information is accurate, current as to the Federal internal control environment, and consistent with related documentation.		X		
	44. Ensure that FCC employees responsible for internal controls are provided with a copy of the internal control policies and procedures manual and are knowledgeable of the contents.		X		
	45. Upon finalization of internal control policies and procedures manuals, conduct sufficient training of Commission personnel.		X		
VII. Improve Internal Controls over Certain Accounts Receivable (Modified Repeat Condition) **A. Regulatory Fees**	46. Ensure that RAMIS and CORES, when fully operational, address and provide solutions to weaknesses noted in our findings.		X		
	47. Continue with the alternative procedures used to ensure that all fees are collected while the new systems are not fully operational. Improve on the procedures by evaluating the results of this year's manual processes used in identifying unpaid regulatory fees and maintain a historical record of the percentage of collections. Use		X		

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	this statistical information to determine how close actual payments are to FCC's estimate and adjust future estimates, if necessary.				
B. Application-Processing Fees	48. Document and implement standard procedures for bureaus to review payment of fees prior to processing an application. Verify compliance with the internal controls documented in the procedure manual.		X		
	49. Increase communication and coordination between FO and the bureaus. Ensure that authorized bureau staff have at least read-only access to financial information relevant to their operations. The bureaus and FO should be proactive to the process instead of reactive.		X		
	50. Consider using CORES as a mandatory customer registration mechanism to ensure completeness of the database and consistent implementation of the registration procedures.	X			
VIII. Improve Supporting Documentation and Controls on Property and Equipment **A. Inadequate Supporting Documentation**	51. Include in AO's procedures requirements that: a) The receiving unit prepares a receiving report when a packing slip is not included in the shipment.	X			
	b) The receiving unit records all relevant asset information such as asset number, serial numbers and purchase order on the supporting documentation (order, receipt, and payment) to facilitate tracking and reconciliation of an asset in the property management system, in FFS, and the supporting documentation.	X			
	c) Request assistance from the ordering office before assigning an asset number if there is any question as to how to assign asset and serial numbers to items received.	X			
	d) For complex orders with multiple parts and lines in the purchase order, such as purchases of computer equipment or software, require the ordering office to provide instructions on the purchase order or other document sent to the warehouse or receiving unit as to how	X			

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	costs and assets are to be recorded in the master property record.				
	52. Determine which office, FO or AO, is responsible for maintaining the completeness of supporting documentation. Consider including a checklist of relevant documentation that should be in an asset file to ensure completeness of supporting documentation.	X			
B. Incorrect Dollar Values in the Property Records	53. To improve the accuracy of cost data in the management property record and FFS, we recommend that FO: a) Reconcile on a monthly basis the management property record and the FFS for capitalized assets and at least annually for non-capitalized assets.		X		
	b) Review FFS entries to ensure use of proper accounting BOC.		X		
	c) Restrict the use of budgetary BOC in FFS and train employees on the proper accounting entries.		X		
C. Some Capitalized Costs Not Distinguished from Non-Capitalized Costs	(See recommendation 53.b and c.)		X		
D. Property Reconciliation's Not Performed for Most of FY 2000	(See recommendation 53.a.)		X		
E. Documentation Was Not Readily Available for Examination	(See recommendation 51.)	X			
F. Documentation Did Not Demonstrate that Software Maintenance is Accurately Identified and Expensed	54. To provide assurance that software maintenance costs are classified appropriately, we recommend that FO, working closely with ITC, to: a) Review capitalized software and software maintenance costs on a periodic basis.		X		
	b) Establish a formal mechanism to ensure that personnel responsible for knowing which costs are maintenance and which costs are developmental provide correct BOC guidance to personnel entering the information in FFS.		X		
	c) Provide training to appropriate personnel on proper allocation of costs to BOCs.	X			

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CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	55. Ensure that software and systems' owners certify the transfer of a software system from development to operations (in-service) in order for the proper classification and proper depreciation of asset.		X		
IX. Improve Controls Over Accounts Payable (Modified Repeat Condition)	56. Review vendor account balances within the accounts payable subsidiary ledger.		X		
	57. Perform periodic reconciliation of the general ledger and the subsidiary ledger balances. Analyze the balances in the accounts periodically (monthly).		X		
	58. Activate user access controls and data entry field requirements to ensure that only appropriate activity is recorded in the accounts payable subsidiary ledger.		X		
	59. Minimize the use of journal vouchers. If a journal voucher has to be prepared, ensure that the appropriate subsidiary ledger is adjusted for the effect of the journal voucher.		X		
	60. Consider using a sub-SGL account (i.e., SGL 2110.1) to account for auction-related payables. This will allow management to perform an effective and efficient review of the accounts payable and the auction-related transactions.			X	
X. Performance Goals and Results (Repeat Condition)	61. Enhance communication and information sharing to achieve better results. Ensure that staff throughout FCC is aware of and managers are involved in setting organizational goals and objectives, regularly assessing progress, and making needed changes to help ensure success.	X			
	62. Use goals and performance measures in day-to-day management and build them into performance appraisal system to develop an understanding of the relationships between strategic goals and individual work assignments.		X		
	63. Increase coordination and communication among the PERM, budget office, program offices, and the CFO office. The CFO office should provide costs input in achieving the outputs and/or outcomes of performance goals.		X		

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
	64. Link objectives and performance measures to the strategic plan and the annual financial statements.		X		
XI. OMB Circulars No. A-127 and A-130 Reviews (Repeat Condition)	65. Institute a program for conducting periodic reviews in accordance with OMB Circulars No. A-127 and A-130.			X	
	66. Include the results of OMB Circulars No. A-127 and A-130 reviews as part of Section 4 reporting in FCC's annual FMFIA report.			X	
COMPLIANCE REPORT:					
Government Performance and Results Act of 1993 (GPRA)	We recommend that FCC comply with the provisions of GPRA and provide copies of these documents for our review as part of future financial statement audit.			X	

Resolution Classification (X)

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SECTION VI

ACRONYMS

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ADP	Automated data processing
AGW	Account Grouping Worksheet
APP	Annual performance plan
APPR	Annual program performance report
BOC	Budget object codes
BS	Balance Sheet
CCB	Common Carrier Bureau
CFO Act	Chief Financial Officers Act of 1990
CFO	Chief Financial Officer
CORES	Commission Registration System
DCIA	Debt Collection Improvement Act of 1996
FACTS	Federal Agencies' Centralized Trial-Balance System
FCC	Federal Communications Commission
FFMIA	Federal Financial Management Improvement Act of 1996
FFS	Federal Financial System
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FO	Financial Operation Center
FRN	FCC Registration Number
FSPG	Financial Statements and Policy Group
FY	Fiscal year
GAAP	Generally accepted accounting principles
GAO	General Accounting Office
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
IC Report	Report on Internal Control
IT	Information technology
ITC	Information Technology Center
JFMIP	Joint Financial Management Improvement Program
JV	Journal voucher
LNPA	Local Number Portability Administration
MD	Managing Director
MD&A	Management discussion and analysis
NECA	National Exchange Carrier Association
NANPA	North American Numbering Plan Administrator
OAPR	Open Accounts Payable Report
OBDR	Open Billings Detailed Report
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMD	Office of Managing Director
PERM	Performance Evaluation Records Management

PSG	Planning and Support Group
QPRR	Quarterly Performance and Results Review
RAMIS	Revenue Accounting and Management Information System
SBR	Statement of Budgetary Resources
SCA	Statement of Custodial Activity
SDLC	system development life cycle
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard general ledger
SNC	Statement of Net Cost
SP	Strategic plan
TFM	Treasury Financial Manual
TROR	Treasury Report on Receivables
TRS	Telecommunications Relay Service Fund
USAC	Universal Service Administrative Company
USF	Universal Service Fund
USSGL	United States Standards General Ledger