REPORT ON THE
FEDERAL COMMUNICATIONS COMMISSION
FISCAL YEAR 2003
FINANCIAL STATEMENTS

03-AUD-05-07 December 19, 2003

Office of Inspector General

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Federal Communications Commission

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: December 19, 2003

TO: Chairman
Managing Director
Chief Financial Officer

FROM: Inspector General

SUBJECT: Audit of the Federal Communications Commission's Fiscal Year (FY) 2003 Financial Statements

This letter transmits Clifton Gunderson LLP's (hereafter referred to as "CG-LLP") report on its FY 2003 financial statement audit of the Federal Communications Commission (FCC) and the results of the Office of Inspector General's (OIG) review thereon.

In accordance with the Accountability of Tax Dollars Act of 2002, FCC prepared consolidated financial statements in accordance with Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, 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 2003 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 2003 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 2003 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 2003 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 an unqualified opinion on FCC's consolidated balance sheets as of September 30, 2003 and 2002, the related consolidated statements of net cost, changes in net position, financing, custodial activity, and combined statements of budgetary resources. CG-LLP opined, the financial statements referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2003 and 2002, its net cost, changes in net position, budgetary resources, custodial activity, and reconciliation of net cost to budgetary resources 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 were 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 a 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
- Auction Transactions
- Cost Accounting
- Universal Service Fund Financial Reporting: Accounting and Reporting Controls
- Information Technology

CG-LLP identified additional reportable conditions not considered to be material weaknesses, which include:

- Revenue Recognition
- RAMIS Application and Processes
- Payroll Activities
- Debt Collection Improvement Act Reporting
- OMB Circular Nos. A-127 and A-130 Reviews
- Federal Managers' Financial Integrity Act of 1982 Compliance and Reporting

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 Officers Act of 1990
- OMB Circular No. A-129, *Polices for Federal Credit Programs and Non-Tax Receivables*
- Debt Collection Improvement Act of 1996
- Federal Financial Management Improvement Act of 1996

In accordance with generally accepted government auditing standards, the Independent Auditor's Report prepared by CG-LLP is dated, December 8, 2003, the last day of audit fieldwork.

Should you or your staff have any questions, please contact me or Thomas Cline, 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

H. Walker Feaster, III
Inspector General

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SECTION I

FEDERAL COMMUNICATIONS COMMISSION'S MAJOR MANAGEMENT CHALLENGES

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: December 4, 2003

TO: Chairman
Managing Director

FROM: Inspector General

SUBJECT: Inspector General Statement on the Federal Communications Commission's Major Management Challenges

In November 2000, the President signed the Reports Consolidation Act of 2000 (Public Law No. 106-531), which requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. To date, the Federal Communications Commission (FCC) Inspector General was not subject to this requirement since the Commission was not a covered agency per the Chief Financial Officers Act of 1990. With the enactment of the Accountability of Tax Dollars Act of 2002, the FCC is now subject to these provisions. This document responds to the requirements and provides the initial response to be included in the *Consolidated Audit of the Federal Communications Commission Fiscal Year 2003 Financial Statements*.

We identified the following seven significant management issues facing FCC for fiscal year 2003.

- Universal Service Fund Fraud
- Financial Reporting
- Loan Subsidiary Ledgers
- Information Technology and Information Systems Security
- Revenue Gap
- Reporting Components
- Physical Security and Protection of Personnel

The FCC continues to address these issues, many of which are of a long term nature and do not lend to themselves to quick fixes. Our assessment of the status of these challenges is enclosed.

The Reports Consolidation Act of 2000 permits agency comment to the Inspector General statements. To this effect, we request all comments or responses be received by my office by January 2, 2004.

H Walker Feaster III

H. Walker Feaster, III
Inspector General

Attachment

Cc: Mark Reger, Chief Financial Officer

Universal Service Fund (USF) Fraud

Fraud is an inherent risk in the USF core business process: collection, certification, and disbursement of funds for advanced telecommunications services. As of fiscal year end 2003, 43 investigations have been initiated. Of those investigations, 35 are on-going and eight have been closed. Investigations have led to indictments as well as subsequent sentencing relating to fraudulent actions. To date, over $3.3 million in recoveries have been processed by the fund administrator with additional recoveries greater than $1.9 million sought.

FCC has taken action to address fraud in the USF business process however additional efforts are needed. FCC and the USF Administrator, in conjunction with the Office of Inspector General and the Department of Justice, have developed processes for suspected fraudulent activity monitoring, investigation, and referral. However, controls over management oversight and accountability for receipts of USF funds have been materially weak because of inadequate management controls, lack of a sufficient independent audit program to deter future fraudulent activity, and weaknesses in the structure of the program.

Financial Reporting

FCC does not maintain current and accurate financial data during the course of the year. As a result, FCC undertakes a massive effort to compile, analyze, and correct its financial data to prepare accurate financial statements quarterly and at fiscal year end. FCC can enhance both its processes and timing of financial reporting practices, improve its policies and procedures to ensure consistent accounting practices, and continue its endeavor for an updated, integrated financial management system entity-wide.

FCC has made progress in correcting financial management weaknesses. Recent improvements in its loan receivable and cost accounting processes resulted in FCC obtaining unqualified opinions. Despite these achievements, FCC needs to take additional steps to ensure proper financial management reporting. Specifically, it has not made the major changes needed to address a long-standing weakness in financial reporting. Significant elements of this weakness include the lack of:

- integrated financial management system(s) within FCC as well as its reporting components
- timely recording and analysis of financial activities for certain accounts
- a cost accounting system that accounts for unit costs per generally accepted accounting principles,

- complete budgetary accounting for consolidated reporting components, and,
- a complete and thorough process for compiling the entity consolidated statements with minimum errors.

Loan Subsidiary Ledgers

Testing of loan ledger balances repeatedly identifies errors. FCC's loan subsidiary ledger is comprised of loan models which are elaborate and complex spreadsheets documenting loan information and balances. In addition to the inherent limitations of the spreadsheet models, the applications utilized in the spreadsheet software are implemented to their maximum potential use which create more problems. Furthermore, FCC's loan review process is manually intensive, therefore the risk of error is higher as a result of these conditions.

FCC is addressing its loan subsidiary ledger issue with the creation of the loan module in the Revenue Accounting and Management Information System and the outsourcing of its loan portfolio to a loan service provider. In October 2003, the loan service provider assumed service responsibility for FCC's loan portfolio. For fiscal year 2004 financial reporting, FCC expects to discontinue use of the loan model spreadsheets as its system of record. Additional future challenges now exist in the management and oversight of the loan servicing contract.

Information Technology and Information Systems Security

As technology advances and our reliance on technology increases, the need for a strong information technology infrastructure becomes even more important. FCC's operations have become increasingly more reliant on automated systems and further integration of FCC data and services with external users via the internet is escalating. Along with explosive growth in computer connectivity comes the ability to disrupt or sabotage critical operations, read or copy sensitive data, and tamper with critical processes.

FCC's information technology control environment and systems security need to be enhanced. FCC is noncompliant with a number of Federal statutes and policies. Commission systems have been susceptible to malicious attacks via viruses and worms, and unauthorized access. Inadequacies and inconsistencies exist in the mainframe and network access request process and efforts to develop and test FCC's contingency plans have been slow. Additionally, FCC lacks a viable capital asset plan, needs to further enhance its audit trail facility utilization and review, and strengthen its password access controls.

FCC has taken steps to address its information technology and information systems security vulnerabilities. FCC developed its agency-wide security plan and is working toward compliance with required Federal policies and statutes; however, completion dates for key items to address this challenge have repeatedly been revised.

Revenue Gap

Although FCC collects approximately $250 million in regulatory fees each year, FCC can not determine if all required fees are collected. The difference between what is collected, an amount subject to Congressional determination, and what should have been collected if all regulated parties paid their fees, is deemed a revenue gap.

Recent systems development and the mandatory use of the FCC Registration Number provide the Commission with a record of each collection which facilitates bill generation to non-payees. However, FCC does not have a complete universe of potential regulatory fee payees, it can not determine the total regulatory fee subject to collection, and it does not have a complete universe to facilitate regulatory fee rate assessment for future years.

Reporting Components

Throughout its history, FCC created subsidiary organizations and administrative components, subject to various levels of FCC oversight, to conduct Commission business and meet the agency mission. Fundamentally, these organizations were created without a complete assessment or determination of how component functions or responsibilities would comply with Federal laws and regulations, policy, or concepts. This issue exists to date and creates considerable confusion.

Until recently, FCC addressed questions arising from this issue on an individual basis resulting in a legal interpretation. At the close of fiscal year 2003, FCC adopted the first of what is expected to be a series of Commission Orders defining the applicability of certain laws and regulations to these organizations and components.

Physical Security and Protection of Personnel

This challenge is not unique to FCC. Since September 11, 2001, physical security and protection of personnel have been critical issues in the Federal government and the United States in general.

The FCC has taken steps to identify and implement security measures to protect FCC personnel and its physical infrastructure. Specifically, FCC created a program to inform personnel regarding potential threats and threat management, prepared measures to address potential catastrophic events, and made security enhancements to FCC facilities.

Despite these efforts, the Commission has related personnel and physical infrastructure issues to complete. For example, the FCC has not completed a Commission-wide continuity of operations plan. Security and protection enhancements to some facilities have not been completed. And, recommendations regarding work place violence need to be addressed by an appointed task force.

Federal Communications Commission

Washington, D.C.

CHAIRMAN

January 12, 2004

Walker Feaster III
Inspector General
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Dear Mr. Feaster:

Thank you for the December 4, 2003 memorandum, providing your office's assessment of the management challenges the Federal Communications Commission (FCC) is now facing. The items identified in the memo are long-standing concerns which have required, and received, attention over multiple fiscal years. Significant progress was made on each item in FY 2003, with two of the issues mentioned (Loan Subsidy Ledgers and Physical Security) at completion points barring further actions, and efforts are underway to further mitigate, if not resolve, the remaining items. Attached is a summary of the progress made toward meeting the remaining challenges, and where appropriate, a description of the additional steps to be taken. I remain committed to the successful resolution of all these concerns.

Sincerely,

Michael K. Powell

Attachment

Management Responses to
Major Management Challenges

Universal Service Fund Fraud

Significant progress has been made toward strengthening the internal controls over the USF. Improvements include the development of an internal audit staff at USAC including a certified fraud investigator, recruitment of a full-time Chief Financial Officer and migration of their entire accounting system from a vendor to USAC control. However, there is much more that must be done.

In FY 2004 USAC will complete audits on seventy-nine (79) USF beneficiaries, providing the detailed results for OIG review. These audits are likely to show that more routine information must be gathered on prospective beneficiaries and some results may trigger additional OIG investigations. The audits will also provide valuable information to be used in tightening internal controls. The audit vigilance applied to the Schools and Libraries Program will also be extended to the other USF programs to ensure they are operating in accordance with all statutory requirements. For FY 2004 our goal is to implement the September 26, 2003 Commission order which mandates that the USF be maintained in accordance with all federal financial requirements and be subject to all federal financial audit rules. USAC will convert their existing accounting system into a fully compliant federal budgetary accounting system by October 1, 2004. This alone will not solve the myriad of reporting problems we are experiencing with beneficiaries but it will bring the record-keeping into compliance with existing federal statutes. Simultaneously we have initiated efforts to bring USF computer systems into compliance with the associated federal statutes. Finally, we plan to establish a verification process to determine that the USF is charging suitable and accurate administrative costs for management of the fund. Currently the agency's appropriated funds are assuming this burden and we recognize that that is inappropriate. As we gain knowledge, programmatic and administrative improvements will continue until all the current issues are resolved.

Financial Reporting

The FCC has obtained unqualified audit opinions for FYs 2000, 2002 and 2003. These are unparalleled achievements for a small agency. Although the financial records of the agency remain based primarily on the requirements of budgetary accounting, we continue to make modifications in processing and procedures in order to move towards a system which would reflect the financial statement position of the agency. This is a 10 year process for most large federal agencies but at the FCC size and strong centralization should lessen the time frames. The agency does continue to remain wholly dependent on a small number of highly skilled federal employees with the unique technical knowledge necessary to convert the budgetary financial data into the annual financial statement format. This is a significant improvement from two years ago when the FCC was dependent on a contractor to prepare the statements. This same FCC team is responsible for other improvements such as implementation of a new cost accounting system and the establishment of Chase Manhattan Bank as the system of record for the loan portfolio on October 1, 2003.

Our next tasks include full integration of our financial reporting activities components; the improvement of posting timeframes on non-routine transactions, and the increased ability to use this new information to make better financial decisions.

Loan Subsidiary Ledgers

The FCC transitioned the Auctions Loan Portfolio record-keeping process to Chase Manhattan Bank on October 1, 2003. This was a major accomplishment and reflects the dedication and effort of many offices within the FCC and their ability to work together towards a common goal. The FCC still lacks sufficient staff to monitor the portfolio performance and will rely on the work of an outside contractor to verify the accuracy of the new process. Since the Commission does not currently anticipate issuing any new loans this will remain the resolution for the time being.

Information Technology and Information Systems Security

The explosive growth in the communication industry and the FCC's heavy dependence on information technology to meet our mission needs means that a strong, secure technology infrastructure guided by sound business processes is more important than ever. The FCC's business operations are almost totally dependent on automated systems that provide the public unprecedented web access to FCC data and services. This customer-oriented environment also brings with it the potential for disruption or sabotage of critical operations, exposure/loss of sensitive data, and impacted critical processes.

One challenge we face is that our internal systems security needs to be improved to meet the ever present security threats and must be compliant with Federal statutes and policies. At this time we must acknowledge that inconsistencies exist in the procedures granting access to our external hosted (mainframe) sites and local network access and that these need to be corrected. Also, efforts towards the development and testing of the FCC's IT Disaster Recovery Plan have been slow but are proceeding and are expected to result in the required infrastructure at the FCC contingency site later this fiscal year.

While the FCC is taking proactive steps to address its information technology infrastructure and information systems security vulnerabilities, such as by developing an agency-wide security plan and working towards compliance with all required Federal policies and statutes, completion dates for some key milestones have repeatedly been revised due to resource constraints.

Another challenge the FCC faces is how to better manage our information technology investment portfolio and meet all applicable Federal policies, such as OMB Circular A-130 and the Clinger-Cohen Act. The FCC should implement a formal, documented information technology Capital Planning and Investment Control (CPIC) process and procedures with defined criteria for the selection, control, and evaluation of investments. Efforts are already underway this fiscal year to formalize and implement such a CPIC process.

Revenue Information Gap

The FCC is not currently able to determine if all required fees are collected because of insufficient licensing information. As a result, we cannot either identify potential payers or accurately anticipate the volumes of activity. Both these elements are necessary to accurately predict the payment amounts and to project rates. While this information gap has resulted in an under-collection of revenue only twice in the ten (10) year history of the regulatory fee program, there is an on-going need for structural improvement in the regulatory fee process. The FCC is in the midst of redefining internal roles and responsibilities, focusing on Bureau and Office involvement in estimating payment units and providing assistance in collection activities after the filing period closes. Adoption of the Debt Collection Improvement Act by the Commission in FY 2004 will be an important tool to aid our collection efforts.

Reporting Components

The current reporting components of the FCC include the Universal Service Fund, (USF), Telecommunications Relay Service, (TRS), and the North American Numbering Plan (NANP). Significant reporting improvement was achieved when the agency adopted an Order in October, 2003, requiring the components of the USF, which include USF and TRS, to transition to government accounting rules effective as of October 1, 2004. Additional Orders and/or a detailed contract are needed to bring the same level of oversight to NANP. The FCC will need to increase scrutiny of these reporting components in the program and financial areas to ensure compliance with these statutes. Following this, we must identify disciplined and structured processes to review and verify the financial information provided by the components to ensure accuracy and consistency in reporting between all units.

Physical Security and Protection of Personnel

While there has been significant progress on physical security enhancements, the FCC is unable to complete certain additional security improvements without the concurrence of building lessors. The FCC will continue to work on completing the outstanding enhancements where possible.

SECTION II

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, 2003 and 2002, the related consolidated statements of net cost, changes in net position, financing, custodial activity and combined statements of budgetary resources for the years then ended (collectively the financial statements). These financial statements are the responsibility of the FCC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of the FCC as of September 30, 2003 and 2002, its net cost, changes in net position, budgetary resources, custodial activity, and reconciliation of net cost to budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 25 to the financial statements, FCC changed its budgetary accounting and reporting of investments held outside of U.S. Treasury in response to modified reporting requirements issued by the Department of the Treasury effective during fiscal year 2003.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 8, 2003 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. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis and Required Supplemental Information are not a required part of the basic financial statements but are supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements.* The Other Accompanying Information is presented for the purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to such information, which consisted principally of inquiries of FCC management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Calverton, Maryland
December 8, 2003

SECTION III

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control

To the Inspector General of the
Federal Communications Commission

We have audited the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2003, and have issued our report thereon dated December 8, 2003. 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*.

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

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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.

MATERIAL WEAKNESSES

I. Financial Reporting (Repeat Condition)

The Chief Financial Officers Act of 1990 (CFO Act) assigned responsibility for developing and maintaining integrated accounting and financial management systems including financial reporting and internal control to each Federal agency. OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, defines 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 (GAAP). 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 continues to improve when compared with prior years. However, the continued reliance on inadequate financial management systems results in a material weakness in financial reporting.

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

- **FCC's Core Financial System**

  FCC utilizes the Federal Financial System (FFS) as its general ledger and core financial management system. FFS is not capable of generating most user reports for data analysis on a real time basis. To compensate for FFS's limitations, FCC uses a software application to download data from FFS for analysis. Other financial management systems used by FCC include a property management system, loan spreadsheets, license databases, collection system, cost system, Revenue Accounting and Management Information Systems (RAMIS), payroll systems, and various spreadsheet applications. Of these systems, certain accounts receivable/collections modules in RAMIS began a daily interface with FFS in December 2002. Additionally, the payroll system interfaced with FFS at the time payroll is processed. None of the remaining mentioned financial management systems are integrated with FFS.

Recommendation:

1. Assess the degree and adequacy of the planned integration for the overall financial management systems. These integrations should include all receivable transactions to be recorded in RAMIS, the fee billing system, the interface with the loan servicer systems, the auction subsidiary systems, the cost systems, and the various stand alone systems such as property management systems, spreadsheets and financial reporting.

Management Comment:

Management concurs. The Commission is working diligently to accomplish a fully integrated financial management system. During fiscal year (FY) 2003, specific actions included implementing the accounts receivable module of RAMIS for all collections, interfacing and posting of the collection activity feed from the lockbox provider into RAMIS and ultimately FFS, and testing the posting of the daily transmission of loan transactions from our loan service provider in preparation for assuming loan servicing responsibilities of the FCC loans on October 1, 2003. An additional two modules are planned for implementation in FY 2004. Effective October 1, 2003, the FCC implemented a new cost accounting system which is linked between RAMIS and FFS. The FCC will review other external systems not yet integrated and determine the feasibility of linking those systems.

- **Reporting Components Core Financial Systems**

  The FCC's reporting components, Universal Service Fund (USF), the Telecommunications Relay Services Fund (TRS), and the North America Numbering Plan (NANP), have general ledger systems that do not interface with FCC's accounts receivable sub-ledger, accounts payable sub-ledger, or cash systems. In addition, each of these sub-systems is an independent system or is comprised of spreadsheets.

Monthly, accounting transactions from various systems are summarized in spreadsheets for data entry into FCC's general ledger system.

The USF, TRS, and NANP general ledger systems are also not United States Standard General Ledger (USSGL) compliant. There are no budgetary entries in these general ledgers. FCC prepares a crosswalk of the USF, TRS, and NANP proprietary accounts to USSGL.

On October 3, 2003, FCC released order FCC 03-232 which requires the administrators of the USF and TRS funds to prepare financial statements for the funds consistent with generally accepted accounting principles for Federal entities (Federal GAAP) and to keep the funds in accordance with the USSGL. Implementation of these new rules is to be completed by FY 2005.

OMB Bulletin No. 01-09 states, "When the reporting entities of which these components are a part, issue consolidated or consolidating statements that include such components, GAAP for Federal entities shall be applied to these components."

Recommendation:

2. Continue open communication with the reporting components' management and if necessary, develop guidance for their compliance with the Federal GAAP.

Management Comment:

Management concurs. During FY 2003, FCC made advancements in the reporting of its components and will continue to improve the guidance and communications to ensure regulatory compliance.

B. Spreadsheet Subsidiary Ledger Systems (Modified Repeat Condition)

FCC's two major financial activities are related to loans receivable and auctions. The activities and relevant information of these accounts are tracked and accounted for in subsidiary ledger systems that are comprised of numerous manually, intensively prepared, elaborate and complex spreadsheets.

The relevant information maintained in the loan subsidiary system consists of original and adjusted loan principal, quarterly billed interest, suspension interest, payment data, application of payments, and cash flow data for the credit subsidy calculator, among other items. The data maintained in the auction-related subsidiary ledger includes winning bids, net winning bids, first down payment from upfront payment, additional first down payment paid, penalties, second down payment paid, outstanding balance, collections, deferred revenue, transferred to revenue, and revenue. These spreadsheets support the flow of transactions throughout the year.

The applications applied in the loan subsidiary systems and the auction-related subsidiary systems have been implemented to their maximum potential use, thereby creating certain problems in addition to the inherent risks and limitations in a spreadsheet-based application, such as:

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

FCC plans to replace the auction-related spreadsheets with RAMIS, and has contracted with a loan-servicing firm to service its loan portfolio in FY 2004.

Joint Financial Management Improvement Program's (JFMIP) *Direct Loan System Requirements*, states that a direct loan system interact with the core financial system to perform fund control checks, initiate or record payment, 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.

OMB Circular A-127 states, "The design of financial management systems shall reflect an agency-wide financial information classification structure that is consistent with the USSGL, provides tracking of specific program expenditures, and covers financial and financially related information. This structure will minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the agency, encourage consistent formats for entering data directly into the financial management systems, and ensure that consistent information is readily available and provided to internal managers at all levels within the organization."

Recommendation:

3. Ensure RAMIS includes all the functional requirements for an auction financial accounting system.

Management Comment:

Management concurs. The functional requirements for the auction financial accounting module have been written and programmed. They are currently in a test mode and will be tested during an auction scheduled in December 2003. Upon successful testing, implementation is planned for FY 2004.

Recommendation:

4. Ensure transition and conversion controls from the current system to RAMIS in FY 2004 are implemented.

Management Comment:

Management concurs. The two modules expected to be implemented in FY 2004 are either in test mode or requirements design phase. Throughout the programming and testing of the auctions module, reconciliations to ensure the accuracy and completeness of the data were performed and continue to be performed. The automated generation of accounting transactions has been verified against the manual transactions to ensure all transactions are being accounted for in each phase of the module.

Recommendation:

5. Ensure transition and conversion controls from the current loan system to the outside loan-servicer systems in FY 2004 are implemented.

Management Comment:

Management concurs. FCC's loan servicer has an integrated direct loan system to account for all events (loan extension, accounting servicing, Department of the Treasury cross-servicing, portfolio management, delinquent debt collection, and other financial reporting requirements) in a single loan system. Reconciliations between RAMIS, the loan service provider's system, and the spreadsheets have been performed for more than 6 months before the October 1, 2003 conversion date, to ensure the controls and functions of the new system are operating accurately and effectively. FCC will continue this practice through the first quarter of FY 2004.

C. Timely Recording and Analysis of the FCC and Reporting Components' Financial Activities (Modified Repeat Condition)

Transaction level activities were not recorded in the general ledger and/or subsidiary ledger on a timely basis and analysis of several activities was inadequate. Although FCC's interim financial statements were more complete this year when compared to prior years in terms of reported accounting transactions, several significant transactions were recorded through period-end journal voucher entries or through the use of "on-top" financial statement adjustments. For example, loan activities (principal and interest receivable, interest revenue, and application of collections) were recorded using a journal voucher entry at the end of each quarter.

Not recording or delayed recording of transactions diminishes the value of financial management reports for decision-making purposes. *Standards for Internal Control in the Federal Government* issued by the General Accounting Office (GAO) states, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions."

Recommendation:

6. Implement procedures to ensure financial transactions are recorded and analyzed at least once a month or more frequently as appropriate. For example, perform analysis of current year, multi-year regulatory fee collections at least quarterly in addition to evaluating the effect of multi-year regulatory fees received in prior years and report the current activities or balances in the interim financial statements.

Management Comment:

Management concurs. Effective the third quarter FY 2003, FCC implemented an analytical procedure to review and post the quarterly impact of the multi-year regulatory fees collected throughout the fiscal year. The analysis and supporting information is provided to the financial statements staff for posting to the quarterly financial statements. And as of October 1, 2003, daily transactions for loans are posted to FCC's financial system from the loan service provider and are reviewed and reconciled. During FY 2004, procedures on these processes will be reviewed and updated to include any changes.

D. FCC's Supervisory Review of the USF Financial Reporting Process (Modified Repeat Condition)

In FY 2003, FCC instituted review procedures to ensure that financial information from the reporting components is accurate, reasonable, and properly supported prior to inclusion in the FCC consolidated financial statements. However, the policies and procedures relating to the reporting components' financial reporting, compilation, and review procedures are elaborated in a section of the policies and procedures manual, which is in draft. This is a condition that has existed for a number of fiscal years. Additionally, the procedures are generally limited to analytical comparisons with prior year balances and review of current year reconciliations. There are no steps to access and assure data integrity, completeness, existence, quality, or reliability of the financial data provided for compilation. With the number of material exceptions noted in our audit of the interim USF financial reports, the FCC's supervisory review and compilation controls need to be strengthened to be effective.

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

Recommendations:

7. Conduct a comprehensive review of the reporting components' financial accounting and reporting policies to ensure their policies are acceptable and in compliance with FCC's policies.

8. Perform a quality control review of the reporting components' financial information to ensure that the information is complete, accurate, reasonable,

and properly presented prior to incorporation in FCC's consolidated financial statements.

9. Finalize and implement the FCC policies and procedures related to the reporting components' financial reporting, compilation, and review process to include review procedures that will assess and assure data integrity, completeness, existence, quality and reliability of the financial data.

Management Comment:

Management concurs. Over the past year, FCC and its reporting components met on a regular basis to discuss FCC policy and to review accounting issues and the financial condition of the funds. FCC approved an order that requires one reporting component to conform to Federal GAAP requirements beginning October 1, 2004. Currently, FCC is working on the possibility of conformance with its other reporting components. Also, FCC modified its policies and procedures, which will be finalized in FY 2004, to include new reporting requirements of its reporting components. During FY 2004, a review of the current policies and procedures manual for Associate Managing Director-Financial Office will be performed.

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

In FY 2003, FCC continued to encounter incorrect FFS system setup and posting model definitions which required correcting previously recorded transactions. These problems resulted in non-compliance with the transaction posting models consistent with USSGL guidance and policies when recording and classifying some transactions. This system deficiency may continue to impair the quality and reliability of the financial management information even though the incorrect entries were identified and eventually corrected.

Recommendation:

10. Perform a periodic or quarterly update of FFS system setup and posting model definitions to ensure timely correction of outdated models and compliance with the latest transaction posting models consistent with USSGL guidance and policies for recording and classifying transactions. Also, ensure changes made to FFS are tested and accepted before entering production.

Management Comment:

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

II. Auction Transactions

The Wireless Telecommunications Bureau (WTB) is the primary source of substantial activities on auctions and licensing that trigger accounting transactions to be acted upon by the Financial Operations Center (FOC). These activities include loan information, licensing decisions, assignments and assumptions, results of an auction, winning bid, bidding credits, upfront payments, first and second down payments, negotiations, waivers, penalties, auction rules and regulations, and many more. When auctions and licensing activities have a financial impact, the operating procedure is for WTB to notify and provide FOC with the necessary information and supporting documentation. We questioned the effectiveness of this operating procedure between the WTB and FOC as explained below.

Our audit disclosed 2 instances where FCC did not record approximately $229 million and $61 million (excluding interest, penalties and other cost) of accounts receivable until they were brought to FCC's attention during the audit. These accounts receivable represent the difference between the original auction winning bid amount and the re-auction winning re-bid amount, plus a penalty for defaulting on a winning bid. These financial activities originated from orders released by the WTB in FY 2001 and FY 2000.

Under FCC rules, a bidder who fails to remit the required down payment for the licenses for which it was the highest bidder shall be deemed to be in default on those licenses. Pursuant to FCC's rules in 47 Code of Federal Regulations (CFR) Section 1.2109 (b), Section 24.704, and Section 1.2104(g)(2) (1996), a winning bidder that defaults on a payment obligation is subject to a default payment. Specifically, the bidder is required to pay the difference between the amount bid and the amount of the winning bid the next time the license is offered by FCC (so long as the subsequent winning bid is less than the amount bid), plus an additional payment equal to three percent of the defaulter's bid, or the subsequent bid, whichever is less (47 CFR Section 24.704 (1996)). In addition, the debt, if assessed, is subject to interest, penalties, and administrative costs, and interest accrues from the date FCC issues an order as permitted under 31 U.S.C. Section 3717.

Although these accounts receivable did not impact the balance sheet at September 30, 2003 because FCC determined that the net realizable value would be zero, the basis for this determination was that the accounts receivable were over a year old and its policy is to reserve 100 percent for such receivables. In addition, FCC believes that the chance of collecting the accounts receivable is diminished when a default occurs, and one of the companies is challenging the default payment in court.

Equally important to note is that FCC's tracking of the details of these licenses from the original auction to subsequent re-auctions was in the form of multiple spreadsheets and other supporting documents from various sources. Since the auctioning of licenses is a significant portion of FCC's operations, it is essential that information about the current status of a license and its history be easily accessible and bureaus and offices have the ability to update and share both financial and non-financial information.

Recommendations:

11. Establish an effective process between WTB and FOC to ensure that all financial related activities of auction and licensing operations are recorded and timely recorded.

12. Establish a database linked to RAMIS and the future auction/loan subsidiary system to create an audit trail or record of delinquent winning bidders whose licenses were cancelled and then re-auctioned, and the amounts collected or receivable from the re-auction. While RAMIS is not yet operational for auction receivables, FCC should create and maintain a comprehensive schedule that will provide this information. The comprehensive schedule should be subjected to a quality control review and reconciliation should be performed on a periodic basis.

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

Management Comment:

Management concurs. FCC is currently working on establishing formal policies and procedures to address these concerns. In coordination with bureaus and offices within FCC, procedures should be completed early in the second quarter of FY 2004. Currently, external spreadsheets are maintained per auction and are updated to ensure all occurrences of cancellation and re-auctions are captured.

These spreadsheets will be used until the auction module is implemented in RAMIS in the second quarter of FY 2004. At that point, these transactions will be accounted for step by step within the system.

III. Cost Accounting (Repeat Condition)

The combination of the following reportable conditions made cost accounting a material weakness.

A. Cost Accounting System (Repeat Condition)

FCC continued to lack a cost accounting system that (1) collects and reports the costs of FCC's activities and programs accurately and timely, and (2) meets the JFMIP *System Requirements for Managerial Cost Accounting*.

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 the proper application of the cost accounting activity codes. Because the cost accounting system is inadequate, FCC management does not use its reports in preparing financial statements or analyzing program costs.

FCC identified its responsibility segments for cost allocation purposes, but did not determine its related outputs and did not calculate the related output costs for its responsibility segments as part of its cost methodology. Also, the cost system could not provide information for performance measurement. FCC is implementing a new cost accounting system in FY 2004.

Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* requires reporting entities to perform a minimum level of cost accounting and provide basic cost information necessary to accomplish the many objectives associated with planning, decision making, and reporting. This minimum level includes collecting cost information by responsibility segments, measuring the full cost of outputs, providing information for performance measurement, integrating both cost accounting and general financial accounting by using the USSGL, providing useful information, and accommodating any of management's special cost information needs that may arise due to unusual or special situations or circumstances.

Without a cost accounting system to centrally accumulate, organize and timely report cost data in a format that meets management's current needs, such information is not readily available for use by managers to aid in routinely managing costs and in decision making. Also, FCC could not measure the full costs of outputs; could not institute a reporting frequency that was timely and on a regular basis without investing in significant resources; and had not integrated both managerial cost accounting and general financial accounting utilizing the USSGL.

Recommendations:

14. Ensure the cost systems to be implemented in FY 2004 meet the minimum requirements outlined in the JFMIP system requirements.

15. Ensure the cost systems to be implemented in FY 2004 will provide information to meet the requirements of SFFAS No. 4.

Management Comment:

Management concurs. To address the cost accounting weakness, FCC initiated a review of systems and selected a new cost accounting system during FY 2002 with planned implementation for October 1, 2003 for FY 2004 reporting. During FY 2003, key staff throughout the agency worked on the implementation of a new cost accounting system which addresses these key issues, provides more efficient and effective reporting for the bureaus and offices, and provides a critical management tool for budgeting, costing, full time equivalent (FTE) and program performance. The new system, Budget Execution and Management System, was implemented and initiated on October 1, 2003.

B. Cost Allocation Process and Cost Finding Techniques (Modified Repeat Condition)

As in prior years, to compensate for the lack of an effective cost accounting system and in order to prepare the Statement of Net Cost (SNC) by program, FCC downloaded program costs from FFS into a spreadsheet application. FCC used these spreadsheets and implemented cost finding techniques to allocate costs to FCC programs. The use of these complex allocation spreadsheets increases the risk of errors, and the risk for those errors not to be detected timely in the normal course of operation. For example, the following exceptions were identified only as a result of the audit process.

- During interim testing, in our recalculation of the allocation of leave, bureau overhead, and direction and support, we found many amounts in the ending balance column "Subtotal After Final Bureau Allocation" on the Bureau Overhead allocation tab of the spreadsheet did not roll-forward correctly as the beginning balance column "Subtotal After Final Bureau Allocation" on the Executive Allocation tab of the spreadsheet.
- During interim testing, we noted that in one spreadsheet, the cost allocation adjustment for the Spectrum Management (SM) and the USF programs was calculated based on total costs after the allocation of unassigned cost. However, in another spreadsheet (the SNC Activity Split), the cost allocation adjustment was posted prior to the allocation of the unassigned cost. This inconsistency resulted in different cost bases used in allocation of program costs and revenue.

FCC implemented cost finding techniques in the last quarter of FY 2002 to capture the costs of the SM and the USF programs for FY 2002. The cost finding techniques were implemented for a full year in FY 2003. This process entailed significant resources from FCC to manually analyze the data gathered. In the cost finding techniques, direct payroll cost is the significant data in determining the "full allocated cost" of a program. In our test to verify the accuracy of cost codes used by employees in charging their hours to the programs, we identified incorrect coding of leave hours due to codes already hard-coded in the payroll system.

C. Matching Revenues to Costs (Repeat Condition)

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

Recommendation:

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

Management Comment:

Management concurs. FCC will address this issue as part of an enhancement to the new cost accounting system. This particular issue will be addressed in late FY 2004 or early FY 2005 after the development and implementation of the new cost accounting system.

IV. USF Financial Reporting: Accounting and Reporting Controls (Repeat Condition)

The USF is a special receipt fund and a special account expenditure fund administered by Universal Service Administrative Company (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 FCC. FCC relies heavily on USAC's financial reporting controls and processes for the USF (see related finding in Section I.D. of this report).

We identified the following control weaknesses in USAC's accounting and reporting processes:

- Non-recording of the budgetary journal entries,
- Inadequate supervisory review of the financial information,
- Untimely communication of identified accounting adjustments to FCC for consideration in the consolidated financial statements, and
- Inadequate review procedures prior to making a disbursement to "at risk" service providers who were in the "do not disburse" status.

GAO *Standards for Internal Control in the Federal Government* state, "Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives." Examples of control activities include proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions and internal control.

Recommendations:

17. Account for USF activities in accordance with the Federal GAAP.

18. Ensure effective implementation of the supervisory reviews.

19. Tighten controls to ensure that timely communication to appropriate parties is made regarding service providers that are placed on the watch list. Compare payments to be made against the disbursement watch list prior to releasing a payment, or institute a payment system, flagging the service providers in the "do not disburse" list.

Management Comment:

Management concurs. FCC now requires the financial reporting and auditing of the USF to conform to Federal GAAP requirements beginning October 1, 2004. The policies and procedures of the reporting components will be reviewed and updated as appropriate to respond to findings identified during the audit. Additionally, FCC will review its existing policies and procedures on financial reporting to ensure supervisory oversight and review are incorporated where necessary.

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

The reportable conditions below, when evaluated together, made IT a material weakness.

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 November 2000, established a minimum set of controls for federal agencies, including risk assessments, assigning responsibility for security, security planning, periodic review of security controls, and management authorization of systems to process information.

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

- FCC directive 1131.1 "Information Security Manual" has expired. FCC has not issued a new directive to replace the expired information security directive.
- FCC has not completed the implementation of its entity-wide security program plan. FCC has also not certified and accredited its entity-wide security program plan.
- FCC has not completed nine of its nineteen risk assessments for its major applications and mission-critical general support systems.
- FCC has finalized eighteen security plans for certification and accreditation. However, one remaining security plan for the Federal Personnel/Payroll System (FPPS) is in the development stage.
- The routine review of security controls over FCC's systems is not consistently reported and the certification and accreditation of these systems is not conducted timely. FCC completed five formal certifications and accreditations of its systems during FY 2003 and completed an additional five certifications and accreditations in October 2003.
- 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.

Recommendation:

20. Issue a new directive to replace the expired information security directive.

Management Comment:

Management concurs. A revised information security directive is expected to be completed in early second quarter of FY 2004.

Recommendation:

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

Management Comment:

Management concurs. The FCC Information Technology Center (ITC) created the *FCC Information Technology Strategic Plan* dated July 2002. The *FCC Information Technology Strategic Plan* includes and outlines the FCC ITC computer security infrastructure and computer security strategy for the FCC IT resources. FCC ITC management believes the *FCC Information Technology Strategic Plan* serves as a basis for the entity-wide security plan.

Recommendation:

22. Conduct current risk assessments for the two FCC general support systems and seven major applications.

Management Comment:

Management concurs. Risk assessments are an integral component of the FCC ITC Computer Security Program (CSP) certification and accreditation process. CSP activities are ongoing for FY 2004 to conduct risk assessments for the remaining major application and general support systems.

Recommendation:

23. Develop and implement security plans for FCC's one major application system, FPPS.

Management Comment:

Management concurs. FCC received the FPPS security plan from its external servicer. FCC's CSP will develop an additional security plan which addresses FCC's security roles and responsibilities.

Recommendation:

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

Management Comment:

Management concurs. FCC's CSP established the certification and accreditation tracking sheet during FY 2003. The tracking sheet allows the CSP to track and schedule review and test dates of all major applications, minor applications, general support systems, and other activities conducted by the CSP in accordance with OMB Bulletin Circulars No. A-127 and A-130, Appendix III. To support the review process, the CSP will develop formal documentation which outlines the activities conducted by the CSP.

Recommendation:

25. Complete the certification and accreditation of FCC's major applications and general support systems based on the security plans developed and implemented.

Management Comment:

Management concurs. As of October 2003, the CSP certified and accredited ten major applications. CSP activities are ongoing for FY 2004 to certify and accredit the remaining major application and general support systems.

Recommendation:

26. Enhance audit trail facility utilization and review.

Management Comment:

Management concurs.

B. Accelerate Efforts to Develop and Test FCC's Contingency Plans (Modified 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. The purpose of service continuity controls is to ensure that, when unexpected events occur, critical operations continue without interruption or are promptly resumed. FCC does not have procedures in place to protect information resources and minimize the risk of unplanned interruptions nor a plan to recover critical operations should interruptions occur. FCC is not in compliance with OMB Circular No. A-130 Appendix III and Federal Information Processing Standards Publications (FIPS PUBS) 87, *Guidelines for ADP Contingency Planning*.

This weakness was reported in FY 1999, and except for the Auctions network, FCC has not completed the development and documentation of a comprehensive disaster recovery and business continuity plan. FCC has procured contractor assistance in completing this task.

The deficiencies reported in prior years will continue to exist until FCC completes and tests the effectiveness of the security plan being developed. The service continuity control deficiencies listed below, 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 integrated the contingency plans of its data centers, networks and telecommunication facilities in a comprehensive disaster recovery plan (DRP).
- FCC does not participate in the Disaster Recovery Test of the FFS Application. FCC does not have a copy of the FFS Security Plan and the DRP implemented by its service provider.
- FCC provided the Fee Filer online system for the submission of Annual Regulatory Fees and related data. During the recent fee filing period, the system was off-line for approximately 7.5 hours due to a system crash. Major hardware was replaced, which resolved the problem. However, a backup server was not designated for the Fee Filer at the time of the system crash and the tape restoration procedures were not initiated since the cause of the system crash was determined to be hardware related. The Fee Filer system was determined as a critical support function for RAMIS; however, additional funding resources were not requested to provide enhanced system redundancy.

Recommendations:

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

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

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

Management Comment:

Management concurs. FCC completed an FCC Business Impact Analysis and Alternate Processing Options Analysis during FY 2003, which outlines and prioritizes FCC critical data and operations of its network. Efforts are ongoing by the CSP to complete the DRP that will include detail recovery procedures for RAMIS and all other major applications. Testing and training on the DRP is scheduled for FY 2004. Additionally, the FCC Application Integration Group will work to replicate the Fee Filer application at a secondary location for availability during the activation of the DRP.

C. Inadequate Password Controls for USF Major Applications

- Access to the Simplified Tracking and Review System is controlled via log-ins and authorization. The user ID and password are set up by the IT Security Services. We noted the following password control weaknesses:

    - IT Security Services staff selects the password for new users. Users are not required to change their passwords after first time logon and the passwords do not expire.
    - IT Security Services staff emails the new user's ID and password to requestor's direct manager. The direct managers notify the user their user ID and password.

- USAC, via its service provider, out-sources data entry services to an outside company (contractor). The contractor users are authorized access to the service provider's internal website. The service provider security administrator sets up the contractor employee's user ID and password. The passwords for the contractor users are defined by the contractor contact. Users are not required to change their passwords after first time login and the passwords have no expiration date.

- The passwords for the Disbursement Aggregation System (DAS), ABCD application and Great Plains application do not expire and users are not required to change their passwords after first time logon.

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

Recommendation:

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

Management Comment:

Management concurs. Changes will be implemented relative to the system and its password controls to address the findings.

D. Non-compliance with OMB Circular No. A-130 Requirements for the USF

USAC is responsible for ensuring the security of the data in maintaining the USF. USAC contracted with a firm to perform certain accounting services, disbursement, collection and tracking of the USF transactions, but is ultimately responsible for ensuring the information technology related requirements are complied with by the firm.

- We examined the most recent risk review and excerpts performed by the firm and noted that the firm assessed only the business risk of a current major modification to the USAC contract with the firm. The policy of conducting an independent risk review at key milestones in each engagement is not sufficient for the risk assessments required by OMB No. A-130, Appendix III. The firm has not performed a risk assessment that complies with OMB No. A-130, Appendix III for the USAC major applications.
- "eUSAC IT Standard-Procedures-and-Policies" prepared by the firm are the general IT procedures for the USAC project. The firm has not developed a security plan for each major application supporting the USAC project.

Recommendation:

31. Perform risk assessments for all USF major applications every three years or whenever there is a major change to system software or hardware.

Management Comment:

Management concurs. Although it has not been determined that Circular A-130 applies for such systems, FCC management will require USAC to perform a review of application controls, as defined in OMB Circular A-130, Appendix III, for each USF application that is a major application as defined in Appendix III. Management will require such reviews to be performed at least every three years for each application. Management may also require such a review to be performed when management determines that it is warranted by a change to system software or hardware.

Recommendation:

32. Develop and implement security plans for each USF major application.

Management Comment:

Management concurs. Although it has not been determined that Circular A-130 applies for such systems, FCC management will require USAC to develop and implement an application security plan, as defined in OMB Circular A-130, Appendix III, for each USF application that is a major application as defined in Appendix III.

E. Disaster Recovery Test for the USF

OMB No. A-130, Appendix III, and FIPS PUB 87 require federal agencies to periodically test their disaster recovery plan and keep it current in case of a disaster or business interruption. The firm contracted to perform accounting services for USAC currently uses an internally prepared disaster recovery planning manual which was issued in 2001. The manual provides guidelines for recovering wide area network, internet services on the in-bound and out-bound portals and critical operations in case of a disaster.

The firm confirmed there have been no changes and updates to the manual since 2001 and could not provide documentation supporting the fact that the manual has been subjected to continual and rigorous management review in order to ensure it is up-to-date. In addition, a disaster recovery test has not been performed.

Recommendation:

33. Periodically review and update the disaster recovery manual to reflect current conditions. Recent plan reassessments should be documented. The disaster recovery testing should be performed at least once a year. The test results should be analyzed and the plan should be changed accordingly.

Management Comment:

Management concurs. Although it has not been determined that Circular A-130 applies for such systems, FCC management will require USAC to include contingency planning and testing in the application security plan for each USF system that is a major application as defined in OMB Circular A-130, Appendix III.

REPORTABLE CONDITIONS

VI. Revenue Recognition (Modified Repeat Condition)

In FY 2003, as in the prior year, FCC did not fully comply with the various revenue recognition standards and the established accounting policy for the recognition of revenue from auction collections for licenses. Our audit disclosed instances where revenue from regulatory fees and auctions were not recorded as revenue at the appropriate time. For instance, four licensees received Prepared to Grant Public Notices (FCC's auction revenue recognition point) in March 2003, but their upfront and first down payments were not transferred out of deferred revenue and into revenue as of March 31, 2003 interim reporting period. Also, four auction collections, all of which were second down payments, were incorrectly recorded as revenue in the general ledger at the time of collection rather than as a reduction to a receivable balance. Moreover, incorrect transaction processing resulted in recognizing all auction and multi-year regulatory fee collections as revenue at the time of collection.

SFFAS No. 7 states, "Revenue from exchange transactions should be recognized when goods and services are provided to the public or to another Government entity at a price," and "Non-exchange revenue is recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets." In addition, the standard indicates, "Revenue from specific exchange type transactions should be recognized as follows: …(d) when services are rendered continuously over time or the right to use an asset extends continuously over time, such as the use of borrowed money or the rental of space in a building, the revenue should be recognized in proportion to the passage of time or the use of an asset."

Recommendations:

34. Establish and implement accounting procedures that will track the status (issuance of Prepared to Grant Public Notice) of auction licenses as "not granted," "ready to grant," and "granted." This will include tracking the dates

when the status of the license changed and reference to supporting documentation such as the Prepared to Grant Public Notice.

35. Implement procedures to ensure that revenue transactions are recorded in the proper accounting period. One of these procedures should include the use of the billing documents on all revenue related transactions and properly and timely applying collections to the billing documents.

Management Comment:

Management concurs. FCC continues to improve the process and procedures relative to tracking the status of licenses not granted, ready to grant, and granted. The FCC is in the process of testing the RAMIS auctions module that will allow posting of status on a real-time basis. The auctions module will be implemented in second quarter of FY 2004.

VII. RAMIS Application and Processes

A. Electronic Data Processing Controls

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

Recommendation:

36. Develop and/or revise existing procedures to address the weaknesses noted in the FCC OIG audit report on the RAMIS system.

Management Comment

Management concurs. FCC provided responses to the aforementioned report in October 2003. For findings requiring resolution, plans will be generated for corrective action. If necessary, policies will be updated and new ones drafted to complete the action plan.

B. RAMIS Accounts Receivable Module

Fines and forfeitures and regulatory fee receivables were fully converted to RAMIS in FY 2003. Our audit identified numerous errors in the recorded receivables as follows:

- Bill dates or bill due dates recorded in RAMIS were not the correct dates based on the supporting documentation;
- Budget fiscal year in RAMIS was not the budget fiscal year to which the receivable actually pertained;
- The type of supporting documentation (Notice of Apparent Liability, Notice of Forfeitures, Consent Decree, and Forfeiture Order) of the receivable in RAMIS did not agree to the actual supporting documentation;
- Bill due date for unpaid regulatory fee was a date other than the September deadline;
- The transaction date of a receivable in RAMIS changed each time the transaction was queried or reviewed;
- Receivables were recorded in the wrong fund;
- Amount recorded on RAMIS was different from the supporting documentation; and
- Activities such as a collection were not recorded in RAMIS.

These errors were primarily due to system limitations in RAMIS, but also due to human errors such as mispostings and misplaced supporting documentation.

The GAO *Standards for Internal Control in the Federal Government* states that accurate and timely recording of transactions and events should be part of the entity's control activities.

Recommendations:

37. Perform post-implementation tests of the RAMIS accounts receivable application to ensure that all potential limitations and additional requirements are identified and corrected.

38. Implement procedures to ensure that FOC receives all supporting documentation of a fines and forfeiture financial activity.

39. Implement records maintenance procedures to prevent documentation from being misplaced.

40. Strengthen supervisory review procedures.

Management Comment:

Management concurs. A new procedure is currently in place to identify any processing or systems limitation for modifications to the RAMIS system. As modules are implemented this procedure will be utilized to address any systems changes necessary. In addition, policies and procedures will be reviewed and updated for any system changes in processing, to include additional supervisory oversight and review. A review of the existing policies and procedures manual will be performed in FY 2004.

C. Collections in RAMIS

Our tests identified certain weaknesses related to collections in RAMIS as follows:

- Source documentation for one or more collection activities were merged as one activity in RAMIS. This reporting format makes reconciliation between the bank, RAMIS and the Department of the Treasury's data more time consuming and potentially difficult;
- Collections were not posted to RAMIS timely;
- Collections were not recorded in the appropriate fund;
- The RAMIS Receipts Detail Report did not agree with the total cash deposit amount reported by the bank to the Department of the Treasury and FFS; and
- While the total collections amount from RAMIS reports could be agreed to the total cash deposits in FFS, the details supporting the individual line items could not be specifically identified in RAMIS.

GAO's *Standards for Internal Control in the Federal Government* states, "Transaction should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions." Further, application controls are "designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. Controls should be installed in an application's interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed."

Recommendation:

41. Create reports in RAMIS that will provide details of each summary line item posted in FFS.

Management Comment:

Management concurs. The report has been created, currently being tested, and will be run daily to assist in the reconciliation procedures between the financial systems.

Recommendation:

42. Re-write and test the RAMIS Receipts Detail Report to ensure that RAMIS accurately captures the bank's detail deposit information accurately and timely.

Management Comment:

Management concurs. FCC reviewed the financial reports from RAMIS and is modifying those to provide the most accurate and complete information.

VIII. Payroll Activities (Modified Repeat Condition)

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

- Leave error reports received from the National Finance Center (NFC), showing differences between NFC's leave record for each employee and FCC's leave records were not reconciled. Our audit disclosed significant differences for all categories of leave balance such as the annual leave, sick leave, compensatory time, and credit hours categories.
- Other deficiencies include: (1) incorrectly completed timesheets, (2) incorrect accounting codes used on timesheets, and (3) reconciliations were not being performed on corrected data sent from FFS to the FCC's desktop payroll reconciliation system.

GAO *Standards for Internal Control in the Federal Government* state that transactions should be accurately recorded in a timely manner. One of the control activities used to accomplish this goal requires the performance of reconciliation and having controls in place to detect errors.

Recommendation:

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

Management Comment:

Management concurs. FCC has contracted the services of an outside contractor to conduct audits on all FCC employees identified with leave discrepancies. Audits continue to be conducted for all employees whose timecards and Statement of Earnings and Leave do not match. In addition, after individual audits have been completed, Human Resource Management (HRM) reviews the bi-weekly error reports and works with timekeepers, employees, and supervisors to immediately correct errors that occur after the audits are completed. FCC continues to remind employees, timekeepers and supervisors of the importance of reviewing timecards to ensure accuracy.

Recommendation:

44. Conduct employee training to re-emphasize the importance of proper coding and to ensure that timesheets are properly completed and certified by supervisors.

Management Comment:

Management concurs. HRM conducts employee briefings on time and attendance each year. As part of the implementation of the new integrated time reporting and cost accounting system, employees, timekeepers, and supervisors were trained and briefed. FCC periodically sends reminders to employees, timekeepers and supervisors on properly coding the FCC Time and Attendance Worksheet and Timecard. FCC employees, timekeepers, and supervisors are aware of their roles and responsibilities in ensuring that the Time and Attendance Worksheets and timecards are completed correctly.

Recommendation:

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

Management Comment:

Management concurs. Timekeepers are currently required to correct project code errors. FCC is working on follow-up procedures to ensure corrections are done timely.

IX. Debt Collection Improvement Act Reporting (Modified Repeat Condition)

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

Although FCC submits quarterly Treasury Report on Receivables (TROR) to the Department of the Treasury, existing policies and procedures are inadequate to ensure that all debts delinquent for more than 180 days are referred to the Department of the Treasury for cross-servicing debt collection. Chapter 4, Accounts Receivable, Section 500 of the FCC policy and procedures manual requires that uncollected receivables (excluding loans) older than 90 days be sent to the Department of the Treasury. Although this current policy is not consistent with the 180 days established by the Department of the Treasury, FCC did not enforce its own policy.

Our review of the TROR as of June 30, 2003, disclosed that no amounts have been referred to the Department of the Treasury for off-set, and only $2.5 million of eligible administrative receivables of $102 million had been referred for cross-servicing. Of this amount, $88.6 million belongs to the reporting components. In addition, we noted that the USF accounts receivable reported in the TROR at June 30, 2003 was higher than the amount on the general ledger balance by $23 million.

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

Recommendation:

46. Develop TROR policies and procedures to include the Department of the Treasury referral requirements for the reporting components' accounts receivables. Ensure the policies and procedures also include a requirement for periodic review and update of existing procedures.

Management Comment:

Management concurs. FCC has worked extensively with the reporting components to implement procedures associated with the implementation of DCIA. Effective the fourth quarter of FY 2003, FCC received monthly files from one of its reporting components, and as of October 2003, an additional two components submitted files. Formal procedures are being finalized reflecting the entire DCIA process from delinquency letters to the final stage of transferring the debt to the Department of Treasury.

Recommendation:

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

Management Comment:

Management concurs. FCC continues looking for ways to better streamline and timely forward debt to the Department of the Treasury. In addition to ensure debts are being submitted timely, an independent staff member is performing a second review prior to debt being submitted to the Department of the Treasury. In addition, the Department of the Treasury has implemented a new electronic program, which FCC will participate in, whereby all supporting document and debt will be sent electronically, thus the information (debt) will be received faster. FCC is currently working with the Department of the Treasury to enroll with the program.

Recommendation:

48. Perform a review of the delinquency debt letter procedures to ensure that all delinquent debtors are receiving the dunning letters and that interest, penalties and administrative fees are being assessed in conjunction with the submission of the letters to the debtors.

Management Comment:

Management concurs. During FY 2003, debt transfer was suspended due to a backlog at the Department of the Treasury. Currently, the suspension is lifted and FCC continues to prepare batches of outstanding debt for submission to the Department of the Treasury. FCC will ensure that its revenue and accounting system has the capability to automatically assess interest, administrative fees and penalties, and ensure these debts substantially comply with DCIA and FCC's policies and procedures.

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

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

Recommendations:

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

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

Management Comment:

Management concurs.

XI. Federal Managers' Financial Integrity Act Compliance and Reporting

As required by OMB Bulletin No. 01-02, we compared the material weaknesses and material non-conformances reported by FCC in its draft FMFIA report dated November 28, 2003 to our report on internal control dated December 8, 2003 noting differences. We do not believe, however, that failure to report these material weaknesses constitutes a separate reportable condition or material weakness because different criteria are used in determining material weaknesses for both reports, and management has reported some of the material weaknesses. However, FCC did not take timely and effective actions to correct material internal control deficiencies identified in prior years' Independent Auditor's Report on Internal Control. Also, many of the original target correction dates for the deficiencies reported in the FMFIA report were not met and had to be revised. Section IV of the OMB Circular No. A-123, *Management Accountability and Control* (Revised June 21, 1995), states, "…management has a responsibility to complete action, in a timely manner, on audit recommendations on which agreement with the IG has been reached."

Following are the elements of material weaknesses identified in this report that were not specifically identified in the FMFIA report:

- Financial Statement Reporting
  - Timely recording and analysis of financial activities,
  - Spreadsheet subsidiary ledger systems (except for loan subsidiary), and
  - FFS setup and posting model definitions,

- Auction Transactions

- Cost Accounting System
  - Cost allocation process and cost finding techniques, and
  - Matching revenues to costs,

- Information Technology
  - Accelerate efforts to develop and test FCC's contingency plans,
  - Inadequate password controls for USF major applications,
  - Non-compliance with OMB Circular A-130 requirements for the USF, and
  - Disaster recovery test for the USF.

STATUS OF PRIOR YEAR COMMENTS

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

- **Condition - Loans Subsidiary Ledger Non-Financial Information**

  In FY 2002, our audit disclosed instances where loan information in the loan subsidiary ledgers was incorrect. This information included incorrect maturity date(s) and incorrect repayment date(s) which differed between the loan documents on file and the subsidiary ledgers.

  In FY 2003, we identified some non-financial information exceptions in the loan subsidiary system, which we reported in the management letter.

- **Condition - Regulatory Fees**

  In FY 2002, FCC's fee collection database was not linked to its licensing databases, making it difficult for FCC to perform routine automated checks on whether all licensees paid their regulatory fees. Also, FCC did not have an agency-wide policy regarding actions that should be taken by the bureaus when a regulatory fee has not been paid. This results in inaction or inconsistent treatment of the regulatory fee non-payers by the bureaus.

  In FY 2003, RAMIS replaced the fee collection database. RAMIS is linked to the licensing databases and performs the required fee sufficiency requirements of the various licensing systems. FCC also developed an agency-wide policy regarding actions that should be taken when a regulatory fee has not been paid. Therefore, we have excluded this reportable condition in FY 2003.

- **Condition - Accounting for Obligation**

  FCC's internal control policy requires a certification from bureau and office managers that obligations have been reviewed and are correct. This policy is part of FCC's monthly and year-end financial and budgetary review process to determine whether an obligation should be deobligated and/or an undelivered order should be reclassified to a delivered order. In FY 2003, our audit tests did not disclose any exception related to this control. Therefore, we have excluded this reportable condition in FY 2003.

- **Condition – Accounting for Accounts Payable**

  FCC recognized a liability for goods and services when an invoice is received and logged into the FFS. This accounting policy is not in accordance with GAAP which states that a liability is to be recognized for the unpaid amounts when goods and services are received, not necessarily at the point of disbursement nor at the point an invoice is received. In FY 2003, FCC compensated for this weakness by implementing an accrual procedure involving fund managers identifying amounts for items received but not billed, and reviewing undelivered orders and unliquidated obligations. Therefore, we have excluded this reportable condition in FY 2003.

- **Condition – Compliance with Certain Aspects of the Clinger-Cohen Act of 1996**

  We noted that certain aspects of the Clinger-Cohen Act were not followed in FY 2002 in the development and implementation of the RAMIS application. We noted that the weaknesses had been corrected in FY 2003. Therefore, we have excluded this reportable condition in FY 2003.

With respect to internal control related to performance measures reported in FCC's Management Discussion and Analysis, 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.

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 December 8, 2003.

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
December 8, 2003

SECTION IV

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Compliance with Laws and Regulations

To the Inspector General of the
Federal Communications Commission

We have audited the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2003, and have issued our report thereon dated December 8, 2003. 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 FCC. As part of obtaining reasonable assurance about whether FCC's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to FCC.

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

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Chief Financial Officers Act of 1990 (CFO Act)

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

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

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

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

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

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

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

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

- Direction, policy guidance memorandum for FCC's financial statement preparation and oversight of the reporting components' financial operations are inadequate. A memorandum for the preparation of fiscal year (FY) 2003 financial statements was not issued by the CFO until October 20, 2003.

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

In FY 2003, as in the prior year, FCC's Narrowband licenses did not have installment payment plan notes stating the loan amounts and terms. In addition, Security Agreements were not issued by FCC for this block of loans. These loans, with outstanding balances of $78 million at the end of third quarter, are direct loans accounted for under the Federal Credit Reform Act of 1990. Section 502 of the Federal Credit Reform Act defines "direct loan" as a disbursement of funds by the Government to a non-Federal borrower under a contract that requires repayment of such funds with or without interest.

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

Debt Collection Improvement Act of 1996 (DCIA)

FCC's Treasury Report on Receivables (TROR) for administrative receivables submitted to the Department of the Treasury as of June 30, 2003, disclosed that no amounts have been referred for off-set, and only $2.5 million of the $102 million of eligible receivables was referred to the Department of the Treasury for cross-servicing. See IC Report, Section IX for a more detailed explanation.

In addition, FCC does not participate in a computer match of its delinquent receivables with records of Federal employees at least annually as required by the amended Section 5514 of Title 5 of the DCIA. Although a clearance package, which includes a certification statement the employee must sign and date relative to any FCC indebtedness, is currently provided to all employees who are leaving the agency, this procedure does not adequately address the requirements of the DCIA.

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

Federal Financial Management Improvement Act of 1996 (FFMIA)

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

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

Federal Financial Management Systems

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

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

- Agency-wide Financial Information Classification Structure – As explained in detail in the IC Report, Section I.E., FCC and its reporting components' core financial systems, have not been fully consistent with the USSGL. FCC made a number of posting model changes in FFS, its core system, as part of its implementation of the Revenue Accounting and Management Information Systems during this fiscal year. The most significant posting model change was the Regulatory Fee model. A new posting model has been designed for Auctions revenue postings to be implemented in FY 2004. Also a new International

Telecommunications Settlements posting model is to be designed and implemented in FY 2004. These changes are expected to allow FCC to eliminate manual adjustments currently made to correct posting model deficiencies.

- Security – In FY 2003, as in prior years, we identified several weaknesses, which collectively are considered a material weakness, and are described in more detail in our IC Report, Section V. The weaknesses include noncompliance with OMB Circular No. A-130, *Management of Federal Information Resources,* requirement for a comprehensive security plan, inadequacies and inconsistencies in the mainframe and network access request process, and lack of a fully developed and tested contingency plan. FCC has not completed security plans for one of its major applications and has not implemented, certified and accredited its entity-wide security plan. In addition, only five of the nineteen major applications and general support systems (GSS) were certified and accredited in FY 2003. The initial stage of this process, which includes a risk assessment as part of an all-inclusive security test and evaluation, was completed for ten of the major applications, and a current risk assessment for the two GSS is in progress. In addition, there was a lack of an agency-wide contingency plan to address continuity of operations in the event of a disaster.

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

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

Federal Accounting Standards

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

- Due to the lack of an adequate cost accounting system, in FY 2003 as in prior years, FCC was not able to produce managerial cost information consistent with standards in the Statement of Federal Financial Accounting Standards (SFFAS)

No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* as described in our IC Report, Section III.

- SFFAS No. 1, *Accounting for Selected Assets and Liabilities* states, "When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods." FCC recognizes accounts payable only when an invoice is received and logged into the financial system rather than when goods and services are received.

- SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* states, "Related revenue should be matched with the cost." Specific earned revenue should be matched against specific program costs in accordance with the program costs and revenue description in the budget submission to Congress. FCC allocates the earned revenue among its programs based on the ratio of the program costs to the total costs. See Section III.C. in our IC Report.

U.S. Standard General Ledger at the Transaction Level

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

Also, as discussed in Section I.A. of the IC Report, the accounting transactions of the Universal Service Fund, the Telecommunications Relay Services Fund and the North American Numbering Plan, collectively called "reporting components," which were transactions from feeder systems summarized in a trial balance for consolidation into FCC financial statements, were not recorded in a manner consistent with the account definitions and posting models/attributes specified in the USSGL. The feeder systems from the reporting components also did not record budgetary entries.

FCC's Managing Director and the CFO have been assigned the responsibility of ensuring the substantial compliance with the FFMIA. A discussion of the actions taken by FCC and our recommendations to strengthen FCC's financial management systems are outlined in our IC Report. FCC management plans to continue with the corrective actions started or implemented in prior years.

Management Comment:

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

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
December 8, 2003

SECTION V

FEDERAL COMMUNICATIONS COMMISSION
FISCAL YEAR 2003 ANNUAL FINANCIAL REPORT

Federal Communications Commission

Fiscal Year 2003 Annual Financial Report

(October 1, 2002 – September 30, 2003)

Table of Contents

Federal Communications Commission
Fiscal Year 2003 Annual Financial Report

I. MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Annual Financial Report

This Annual Financial Report (Report) contains management, performance and financial information about the Federal Communications Commission (FCC, Commission, or agency). It presents the Management's Discussion and Analysis, including: the FCC's mission and organizational structure; performance highlights; future issues such as significant demands, risks, uncertainties, events, conditions and trends; brief descriptions of the systems, controls and legal compliance; summary information related to the Federal Manager's Financial Integrity Act material weaknesses and non-conformances and corrective actions; as well as highlights of the financial statements. This Report contains the FCC's principal financial statements for fiscal year (FY) 2003, including a consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, consolidated statement of financing, consolidated statement of custodial activity, notes to the consolidated financial statements, and required supplementary information. Additional performance information is available in the "Other Accompanying Information" section of this report. A complete assessment of the FCC's annual performance results and trend information will be presented separately in the FCC's Annual Program Performance Report in February 2004. This Annual Financial Report is a guide to key FCC initiatives and activities during FY 2003, or planned for future years, that demonstrate the breadth of the Commission's work.

Legislative History and Background

The Commission is an independent United States (U.S.) 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 also regulates intrastate telecommunications services for hearing-impaired and speech-impaired individuals as set forth in Title IV of the Americans With Disabilities Act (ADA). 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 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. Commissioners may not hold a financial interest in any company or entity that has a significant interest in activities regulated by the Commission.

FCC Mission

It is the mission of the FCC to ensure that the American people have available – at reasonable costs and without discrimination – rapid, efficient, nation- and world-wide communication services; whether by radio, television, wire, satellite, or cable.[1]

[1] FCC FY 2003-2008 Strategic Plan, Page 4. 47 U.S.C. §151 – Title 1, Section 1 of the Communications Act of 1934, as amended.

FCC Organizational Structure and Reporting Components

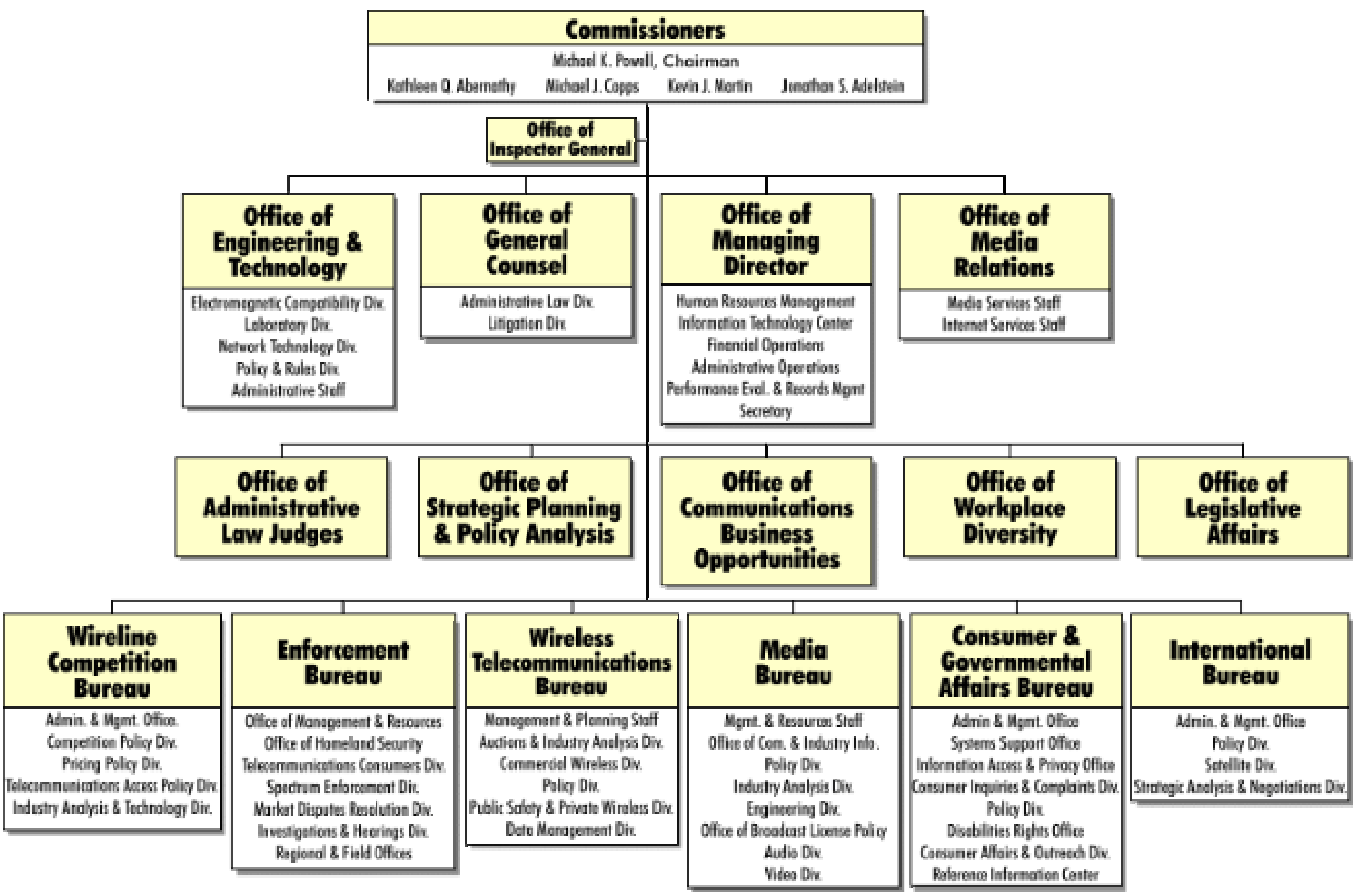
The FCC Chairman leads the Commission as head of the agency. The Commissioners supervise all FCC activities, delegating responsibilities to six bureaus and ten staff offices. Even though the bureaus and offices have individual functions, they regularly join forces and share expertise in addressing Commission issues. The Commission and the Chairman have delegated management and administrative responsibility to the Managing Director.

The FCC has six operating bureaus: Consumer and Governmental Affairs, Enforcement,[2] International, Media, Wireless Telecommunications, and Wireline Competition. These bureaus are responsible for developing and implementing regulatory programs, processing applications for licenses or other filings, analyzing complaints, conducting investigations, and taking part in FCC hearings.

In addition, there are ten staff offices: Administrative Law Judges, Communications Business Opportunities, Engineering and Technology, General Counsel, Inspector General, Legislative Affairs, Managing Director, Media Relations, Strategic Planning and Policy Analysis,[3] and Workplace Diversity.

Detailed information on specific bureau and office responsibilities as well as the following organizational chart for the Commission can be found at: http://www.fcc.gov/.

FCC Organizational Chart



[2] In FY 2003, the Enforcement Bureau renamed its Technical and Public Safety Division to the Spectrum Enforcement Division and created a new Office of Homeland Security.
[3] In FY 2003, the Office of Strategic Planning and Policy Analysis (OSP) replaced the Office of Plans and Policy. OSP works with the Chairman, Commissioners, bureaus, and offices to develop strategic plans for the agency.

Components of the FCC for Financial Statement Purposes

In addition to the activities directly undertaken by the above bureaus and offices, authorities of the FCC for financial statement purposes include the following:

Universal Service Fund (USF) – The USF is a significant program of the FCC. As designated in the U.S. Budget each year, the 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 universal service support mechanisms and the TRS operate on a different fiscal year from other FCC programs; the universal service support mechanisms' fiscal year commences January 1 and ends December 31, and TRS's fiscal year commences July 1 and ends June 30.

The Universal Service Administrative Company (USAC) administers the four universal service support mechanisms of the USF under the direction of the FCC. The universal service support mechanisms are funded through mandatory contributions from U.S. telecommunications providers, 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. Consumers benefit from the support mechanisms which provide money directly to service providers to defray the cost of delivering services to customers who use the telecommunications services supported by these mechanisms. Additional information on USAC and USF, respectively, can be found at: http://www.universalservice.org/default.asp and http://www.universalservice.org/programs/defaultt.html.

The National Exchange Carriers Association (NECA) administers the TRS Fund under the direction of the FCC. The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to use such services to communicate with a person without hearing or speech disabilities in a manner that is functionally equivalent to the ability of individuals without hearing or speech disabilities. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services through shared-funding cost recovery mechanisms. Additional information on NECA and the TRS can be found on the Internet at: http://www.neca.org/ and http://www.fcc.gov/cgb/dro/trs.html, respectively.

North American Numbering Plan (NANP) – The NANP is the basic numbering scheme permitting interoperable telecommunications service within the United States, Canada, Bermuda, and most of the Caribbean. Section 251(e)(1) of the Act requires the Commission to create or designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis. Section 251(e)(2) of the Act requires that the costs of number administration arrangements and number portability be borne by all telecommunications carriers on a competitively neutral basis as determined by the Commission. In implementing Section 251, the FCC appointed a NANP Administrator and a Billing and Collection Agent. NeuStar, Inc. is the NANP Administrator (NANPA) and North American Billing and Collection, Inc. (NBANC) is the Billing and Collection Agent.

Strategic Goals and Objectives

Consistent with the objectives of the Act as amended by the Telecommunications Act of 1996 (the 1996 Act), 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. Through enforcement of policies aimed at encouraging competition, the FCC strives to ensure that rules are adhered to fully and the impacts of business practices on consumers are monitored. The FCC must also keep focused on the global communications marketplace, and the challenges that globalization poses to the sharing of spectrum and the maintenance of open international markets. In order to achieve these goals in this time of great innovation in the communications industry, the FCC must strive to remain on the cutting edge of technology, economics, and the law.

To ensure the FCC is making strides in fulfilling its mission and, in accordance with the Government Performance and Results Act of 1993 (GPRA), the Commission developed strategic goals and objectives and related performance measures. The FCC's Strategic Plan for FYs 2003-2008 is available at: http://www.fcc.gov/omd/strategicplan/strategicplan2003-2008.pdf. The Commission's revised Strategic Plan marks a departure from the FCC's five core activities – 1) licensing; 2) competition; 3) enforcement; 4) consumer information services; and 5) spectrum management[4] – to FCC's six new long-term strategic goals – 1) broadband; 2) competition; 3) spectrum; 4) media; 5) homeland security; and 6) modernizing the FCC.[5]

With the implementation of the revised FY 2003-2008 Strategic Plan, the performance measures in the FY 2003 Annual Performance Plan were closed against the five activities described above. As a result, FY 2003 is a transition year for the FCC. To be consistent with the new Strategic Plan, the FCC will base the Annual Program Performance Report on the FY 2003 outcome indicators included in the FY 2004 Annual Performance Plan. However, the five activities listed on the Statement of Net Cost will be the same as those used for the FY 2003 budget and cost accounting system.

The crosswalk in Figure 1 on the following page tracks the relationship of the outcome indicators discussed in this Annual Financial Report from the five activities in the Statement of Net Cost and budget to the six long-term goals used for FY 2003 performance reporting purposes. These outcome indicators reflect the Commission's mission and goals; the FCC's most significant programs; and are consistent with the Commission's implementation of the GPRA. A complete list of the FY 2003 performance measures that will be included in the FY 2003 Annual Program Performance Report (to be submitted independent of this report in February 2004) are included in the Other Accompanying Information section of this report.

[4] FCC's FY 2003 Budget Estimates to Congress, Annual Performance Plan, page 18.
[5] FCC's FY 2004 Budget Estimates to Congress, Annual Performance Plan, pages 20-22.

Figure 1
Crosswalk of MD&A Outcome Indicators From Five Activities to Six Goals

6 Goals → 5 Activities ↓	Broadband	Competition	Spectrum	Media	Homeland Security	Modernize the FCC
Licensing						7. Reducing the average time required to complete rulemakings
Competition	1. Increasing access to broadband services on multiple platforms: DSL,[6] cable, modem, satellite, et al.	2. Decreasing price for residential & business domestic (local / interstate) wireless and wireline services				
Enforcement		3. Increasing number of consumers and businesses that have reliable wireless and wireline phone service (continuity of service)				
Consumer Information and Enforcement				5. Significant progress in the transition to digital television and radio		
Spectrum Management			4. Increasing deployment of new services making use of underutilized or unlicensed spectrum		6. Increasing amounts of spectrum available for public safety communications	

Resources to Achieve Performance Goals

The FCC is continuing its efforts to integrate the Annual Performance Plan with budget development and execution. The FCC has identified strategies and resources to achieve the performance goals for each of the five activities. In future years, the budget and cost accounting system will track resources according to the six long-term strategic goals. In FYs 2001 and 2002, the FCC increased the number of its program activities from the four included in the FY 2000 Budget to five in order to account for spectrum management program activities. Initially there was no corresponding change in the FCC accounting processes to separately track certain costs associated with spectrum management. To address this reallocation of cost issue in FY 2002, the FCC initiated a project aimed at enhancing its ability to more accurately capture and report costs associated with all five activities and the USF using its cost accounting system. This included implementation of additional project codes within the FCC's accounting system to better capture costs associated with the five activities, as well as for those activities related to the USF. These project codes allowed FCC employees to more easily and accurately report time associated with spectrum management and

[6] Digital subscriber lines.

the other program activities. In addition, the FCC developed supplementary time reporting policies and procedures for its cost accounting system to aid FCC employees in more accurately reporting time and expenses for each pay period. These project codes were used through FY 2003 to reflect the costs associated with the five activities and the USF.

At the end of FY 2002, the FCC entered into a cross-servicing agreement with the Department of Interior (DOI) to implement cost allocation software in FY 2004. In prior Annual Financial Reports, the FCC referred to this system as the Managerial Cost Accounting System, however the FCC has now branded the system the Budget Execution and Management System (BEAMS) to more accurately reflect the design of the program. BEAMS will provide a robust and integrated addition to the Commission's financial management systems that will support the partnership between program and financial managers, assuring the integrity of information for decision making, and measuring the full cost of the FCC's programs and their various elements, activities, and outputs. BEAMS will fully support tracking FCC outputs, programs and activities at the 2003-2008 Strategic Plan objectives, performance goals and output levels. The system will support the Statement of Net Cost for the financial statements, as well as detailed budget execution and full time equivalent (FTE) reporting in support of improved management of Commission resources.

Strategies by Major Program Activity

A summary of the strategies to achieve each of the five activities 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, authorizations for unlicensed services, and 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 customers to file via the Internet or through other electronic filing mechanisms, and the ability to provide customers with immediate status reports on their applications.

B. ***Competition*** – As the FCC's role changed from market regulator to market facilitator, the Commission has relied more on interagency task forces, advisory committees, and state, local, and regional consortia to advise it on how best to establish rules that foster competition and the rapid expansion of innovative new technologies. In addition, the Commission has continued to promote the development of competition in the local exchange market through expeditious review of applications to increase the range of choices in local telephone service providers, multichannel video programming market services, and mobile wireless providers. At the same time, the Commission has vigorously reviewed rules and spectrum allocation policies to ensure that FCC rules, regulations, and activities have not deterred development of emerging technologies.

C. ***Enforcement*** – An important element for competitive markets is the full and fair enforcement of 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 choices for consumers. The Enforcement Bureau (EB), created in November 1999, consolidated functions formerly dispersed throughout the FCC. EB was created to respond quickly and efficiently to the demands of a competitive environment. It allows for a streamlined, centralized enforcement program, capable of identifying problems as they emerge, thus better equipping the Commission to provide a wide range of enforcement initiatives. The EB and the Consumer and Governmental Affairs Bureau (CGB) work together to track trends and share information. 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, now the CGB, 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; and achieving economies of scale. Progress in the FCC's consumer information services included: a thorough evaluation of web site services; development of a redesigned 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 designed to maximize the efficient use of spectrum and make more spectrum available while ensuring the public interest. In June 2002, the Commission established the Spectrum Policy Task Force to conduct a systematic evaluation of existing spectrum policies and to provide recommendations on improving spectrum management.[7]

On November 7, 2002, the Task Force presented its findings and recommendations. The final report was issued on November 15, 2002. According to the Task Force, "increasing demand for spectrum-based services and devices are straining longstanding, and outmoded, spectrum policies." Additional and new uses of electromagnetic spectrum hold great promise to the telecommunications industry and the American consumer. Task Force recommendations include efforts to:

- Migrate toward more flexible, consumer-oriented policies;
- Adopt quantitative standards to provide interference protection;
- Improve access through the time dimension; and
- Shift from a "command and control" model to models that increase flexibility.[8]

Figure 11 in the Other Accompanying Information section provides greater detail on the processes, strategies, resources, and skills that support each budget activity.

Highlights of FY 2003 Performance

As described in the FY 2004 Annual Performance Plan, the FCC developed output activities and outcome indicators to measure progress toward the Commission's long-term general goals. The FCC, through its regulatory activities, influences numerous economic and social outcomes. However, since consumer choice, technological innovation, economic conditions, and international negotiations can all have greater effect on outcomes than FCC's regulatory activities, the FCC's approach to connecting its goals to outcomes measures those factors within the FCC's control – noted as output indicators.

The FCC has made significant accomplishments towards achieving the FY 2003-2008 general goals and outcome indicators. The introductory table for each of the seven selected outcome indicators identifies both the new long-term performance goal that will be used in the FY 2003 Annual Program Performance Report and the activity under which the FCC's efforts are tracked in the budget and Statement of Net Cost.[9]

[7] Public Notice DA 02-1311, "Spectrum Policy Task Force Seeks Public Comments on Issues Related to Commission's Spectrum Policies," ET Docket No. 02-135, July 8, 2002.
[8] ET Docket 02-135, "Spectrum Policy Task Force Recommendations for Spectrum Policy Reform," November 15, 2002.
[9] Note: The first three performance outcome indicators discussed below are based on data used to develop competition reports on the communications industry. These data describe the competitive situations at two points during a year: June 30 and December 31.

Depending on the goal, FY 2003 performance information may not yet be available. Additionally, because the FCC only recently began tracking results for new outcome indicators, trend information may not be available. In each case, the most recent information available is provided for the outcome indicators.

Old Activity: **Competition**	New Goal: **Broadband** ***Performance Goal:*** Broaden the deployment of broadband technologies across the United States and globally.
	1. Outcome Indicator: • Increasing access to broadband services across multiple platforms: digital subscriber lines (DSL), cable modem, satellite, et al.

Accomplishments – Success in Achieving Outcome Indicator Results:

Broadband technologies, which encompass all evolving high-speed digital technologies that provide consumers integrated access to voice, high-speed data, video-on-demand, and interactive delivery services, are a fundamental component of the communications revolution.

Access to high-speed asymmetric digital subscriber lines (ADSL) in service increased by 27% during the second half of 2002, from approximately 5.1 million to 6.5 million lines, compared to a 29% increase, from over 3.9 million to approximately 5.1 million lines, during the preceding six months. For the full year, access to high-speed ADSL increased 64%.

Access to high-speed services over coaxial cable systems (cable modems) increased 24% during the last six months of 2002, from approximately 9.2 million to 11.4 million lines, compared to a 30% increase, from approximately 7.1 million to 9.2 million lines, during the first half of 2002. For the full year, access to high-speed cable modem connections increased 61%.

During the second half of calendar year 2002, reported access to high-speed connections to end-user customers by means of satellite or fixed wireless technologies increased 25%, reported access to fiber optic connections to end-user customer premises increased 5%, and reported access to other wireline connections to end-user customers increased by 2%. Together, these accounted for about 2.0 million high-speed connections at the end of calendar year 2002. (Note: percentages calculated on total not rounded amounts.)[10]

Advanced services 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). Among advanced services lines, access to ADSL lines increased 52% during the last six months of 2002, compared to a 22% increase for cable modem service. During the preceding six-month period, the rate of growth of cable modem (55%) exceeded that of ADSL (35%). For the entire year, access to advanced services lines for ADSL increased 105% and cable modem connections increased 90%.

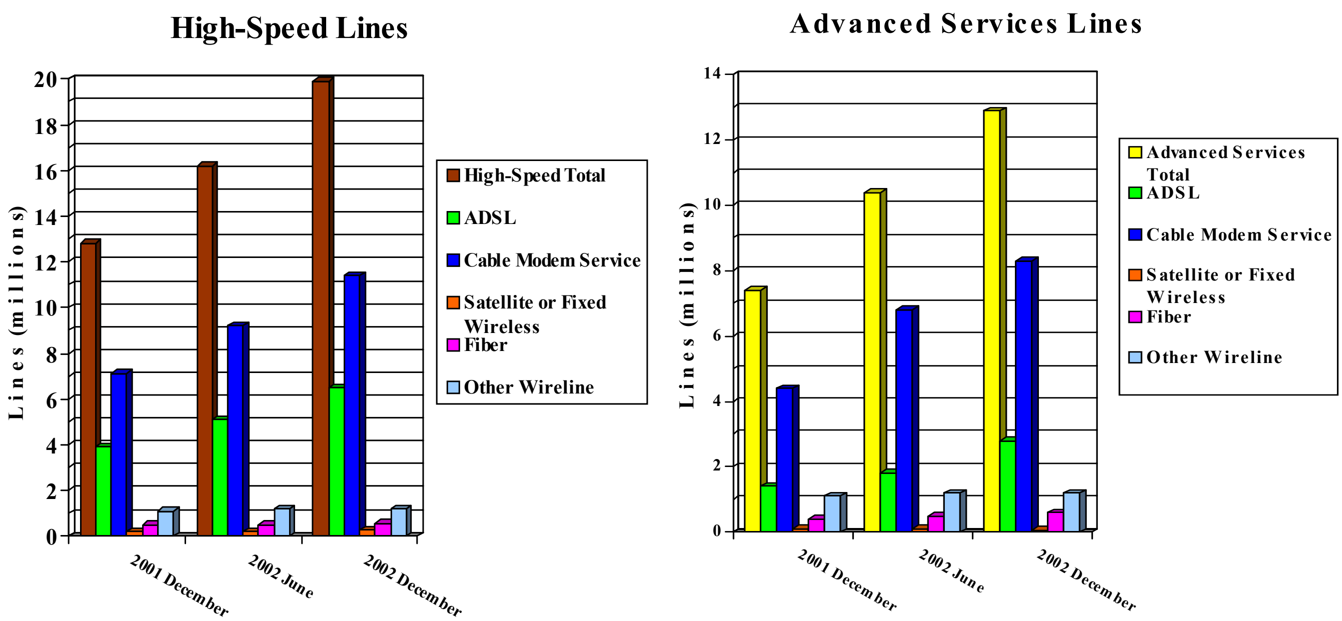
During the second half of calendar year 2002, reported access to advanced services to end-user customers by means of satellite or fixed wireless technologies did not change significantly, reported access to fiber optic connections to end-user customers increased 6%, and reported access to other wireline connections to end-user customers increased by 2%. (Note: percentages calculated on total not rounded amounts.)[11]

[10] Industry Analysis and Technology Division, FCC Wireline Competition Bureau, "High-Speed Services for Internet Access: Status as of December 31, 2002," released June 10, 2003. Calculations of the percentages are based on total amounts included in Table 1.
[11] Ibid. Calculations of the percentages are based on the total amounts as included in Table 2.

Figure 2 below presents statistics on the deployment of broadband (high-speed and advanced) service lines across multiple platforms (ADSL, cable modem, satellite, et al.) in the U.S.

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 prices may constrain demand. The FCC continues to take steps to remove barriers to deployment, encourage investment in technologies that deliver advanced services, and vigorously promote competition in the marketplace. For additional information on this outcome indicator, see the report at: http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/hspd0603.pdf.

Figure 2:
Deployment of Broadband Services Across Multiple Platforms



Data Source: "High-Speed Services for Internet Access: Status as of December 31, 2002," released June 10, 2003. The data is obtained from facilities-based service providers that file data with the FCC twice a year. June 2003 statistics will not be available until December 2003.

Definitions

- High-Speed Services: Services with the capability of supporting a bandwidth in excess of 200 kilobits per second (kbps) in at least one direction.
- Advanced Services: Services that have the capability of supporting, in both the provider-to-customer (downstream) and the customer-to-provider (upstream) directions, a bandwidth in excess of 200 kbps in the last mile.

<table>
<tr><td rowspan="2">Old Activity:
Competition</td><td>New Goal: **Competition**

<u>Performance Goal</u>:
Ensure American consumers can choose among multiple reliable and affordable communications services.</td></tr>
<tr><td>**<u>2. Outcome Indicator</u>:**
• Decreasing price for residential & business domestic (local/interstate) wireless and wireline services.</td></tr>
</table>

Accomplishments – Success in Achieving Outcome Indicator Results:

Wireless Services

As in the last few years, equity analysts and other industry observers continue to describe wireless price competition in the U.S. as intense, fierce, and ultra-competitive. While it is difficult to identify sources of information that track mobile telephone prices in a comprehensive manner, these claims are supported by a number of reports and other available data indicating that the cost of mobile telephony service continues to fall. One journalist opined in October 2002 that "there has never been a cheaper time to sign up for cell phone service."[12] According to one economic research and consulting firm, Econ One, mobile telephone prices in the 25 largest U.S. cities declined roughly 2.9% in 2002.

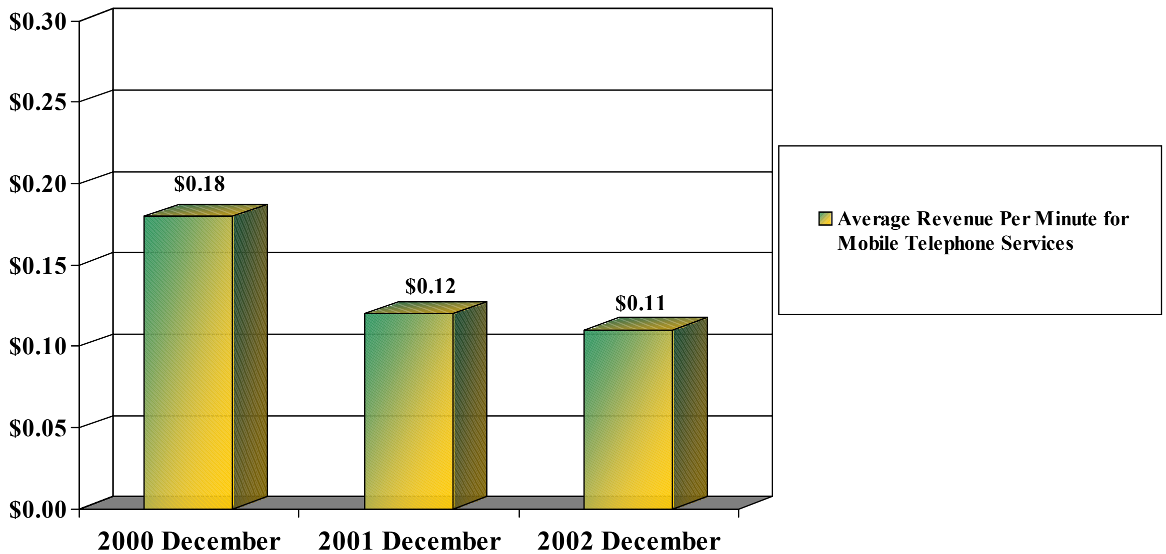
One source of price information is the cellular telephone services component of the Consumer Price Index (Cellular CPI) produced by the U.S. Department of Labor's Bureau of Labor Statistics (BLS). Cellular CPI data is published on a national basis only. From 2001 to 2002, the annual Cellular CPI decreased by 2.0%, when adjusted for inflation.[13]

Another pricing indicator is average revenue per minute (ARPM). This is calculated by dividing a carrier's estimate of the average rate per unit (ARPU) by its estimate of minutes of use (MOU), yielding a measure of average price per minute that the carrier is receiving. Using the Cellular Telephone and Internet Association's (CTIA) estimates of industry-wide ARPU and MOU, CTIA's survey indicates that ARPM fell 9% between December 2001 and December 2002. Since 1994, ARPM has fallen from $0.47 in December 1994 to $0.11 in December 2002, a decline of 76.6%.[14] Figure 3 below shows the trends for this outcome indicator from December 2000 to December 2002.

For additional information on this outcome indicator, the reports are posted on the FCC website at: http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/ref03.pdf (Reference Book) as well as http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-150A1.pdf (Competition Report).

[12] Jane Spencer, "Price Cuts by Cellphone Firms Add up to Consumer Savings," *Wall Street Journal*, October 1, 2002.
[13] "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service," Industry Analysis & Technology Division, Wireline Competition Bureau, Table 3.1, July 15, 2003.
[14] FCC 03-150, "Eighth Annual Report: Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services," see Table 9. Adopted June 26, 2003, released July 14, 2003. (WT Docket No. 02-379)

Figure 3:
Average Revenue Per Minute for Mobile Telephone Services



Data Source: "Eighth Annual Report: Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services," July 14, 2003. December 2003 statistical data will not be available until July 2004.

Wireline Services

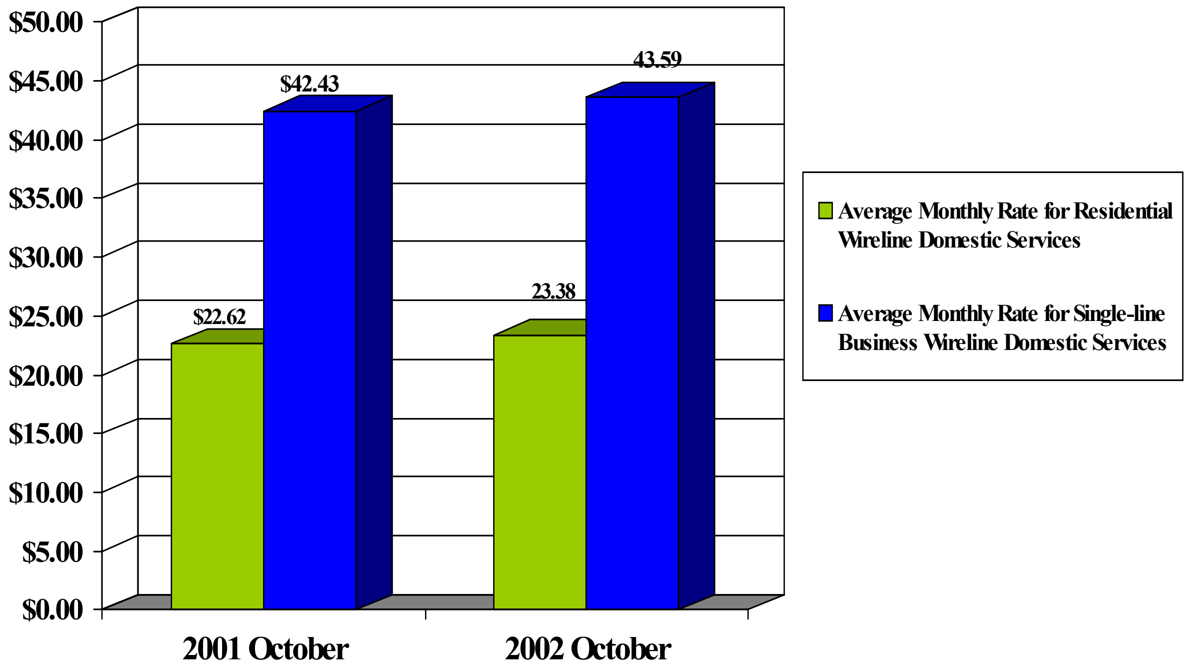
The Consumer Price Index (CPI) for telephone service rose slightly (0.2%) during 2002, measured from December 2001 to December 2002. The additional telephone-related year-to-year CPI changes for 2002 included: an increase in local services of 5.3%; a decrease in interstate toll services of 5.9%; and a decrease in intrastate toll services of 6.1%. Adjusting for inflation during 2002, telephone services decreased 2.1%; local services increased 2.9%; interstate toll services decreased 8.2%; and intrastate toll services decreased 3.2%.[15]

The average monthly rate[16] paid by residential wireline customers in urban areas for local touch-tone calling rose from $22.62 in calendar year 2001 to $23.38 in calendar year 2002, an increase of 3.4%. Similarly, the average monthly rate paid by business wireline customers in urban areas for a single local phone line rose from $42.43 in 2001 to $43.59 in 2002, an increase of roughly 2.7%.[17]

Figure 4 presents the average residential and single-line business rates for domestic local wireline services in urban areas. The survey from which the figure is developed only includes the basic rates charged by incumbent local exchange carriers, including USF charges. The rate averages do not include special bundled package prices that may lower the cost of phone service for various categories of customers, discounted rates offered by competitive local exchange carriers, or the rates charged by local exchange carriers for qualifying low-income subscribers.

[15] "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service," Table 3.1.
[16] Note that the average monthly rates for wireline services include USF charges.
[17] "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service," page iii, Tables 1.2 and 1.9.

Figure 4:
Average Residential and Single-line Business Rates for Domestic (Local) Wireline Services



Data Source: "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service," Industry Analysis & Technology Division, Wireline Competition Bureau, July 15, 2003. October 2003 data will not be available until May 2004. The data was collected from operators and providers of these services.

Where we did not Achieve our Outcome Indicator Results

While local rates have increased, the CPI for telephone service overall (including local, interstate, intrastate, and cellular services) decreased 2.1% in 2002, when adjusted for inflation. There are several reasons for the increase in average local rates. In addition to monthly charges for basic service and calling charges, customers pay a number of other charges for telephone service, including the federal subscriber line charge. Some states authorize local carriers to charge state subscriber line charges as well. Additional charges fund local number portability, TRS, and emergency 911 services. Also, total monthly expenditures are increasing because consumers are purchasing more services, such as bundled packages, caller-ID, call forwarding, and call waiting.

Universal service is a collection of programs designed to ensure, among other things, that telecommunications services are available throughout the Nation at affordable rates. The USF low-income program includes the Lifeline and LinkUp services. Lifeline service helps subsidize the recurring monthly phone charges of qualifying low-income households and LinkUp subsidizes charges for the connection of a phone line. In 2002, there were nearly 6.6 million subscribers receiving Lifeline benefits and more than 1.6 million subscribers who received LinkUp benefits.[18] Based on a 95-city sample, the Lifeline program conferred an average monthly benefit of $13.21, and the LinkUp program conferred an average benefit of $29.73.[19] Additionally, eligible subscribers living on tribal lands qualify to receive a supplemental tier of support. This supplemental support provides up to an additional $25 per month towards reducing basic local service rates. In 2002, more than 100,000 eligible subscribers received these supplemental benefits. Providers are permitted to pass-through charges to customers to recover the costs of these and other USF

[18] "Trends in Telephone Service," Industry Analysis & Technology Division, Wireline Competition Bureau, Tables 20.2 and 20.4, August 2003.
[19] "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service," Table 1.6, July 15, 2003.

contributions.[20] For additional information, these reports can be found on the FCC website at: http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/ref03.pdf (Reference Book) as well as http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/trend803.pdf (Trends).

Old Activity: **Enforcement**	New Goal: **Competition** ***Performance Goal:*** Ensure that all American consumers retain reliable wireless and wireline phone service, and multichannel video service.
	3. Outcome Indicator: • Increasing number of consumers and businesses that have reliable wireless and wireline phone service (continuity of service).

This outcome indicator tracks and monitors the continuity of wireless and wireline phone services; multichannel video service is not tracked under this outcome indicator.[21] A decrease in the discontinuance or disruption of phone services identifies that FCC is achieving this measurement. FCC's major objective is to ensure that in cases of disruption or discontinuance of wireless and wireline services, the customer has an alternative means of having reliable phone service.

Accomplishments – Success in Achieving Outcome Indicator Results:

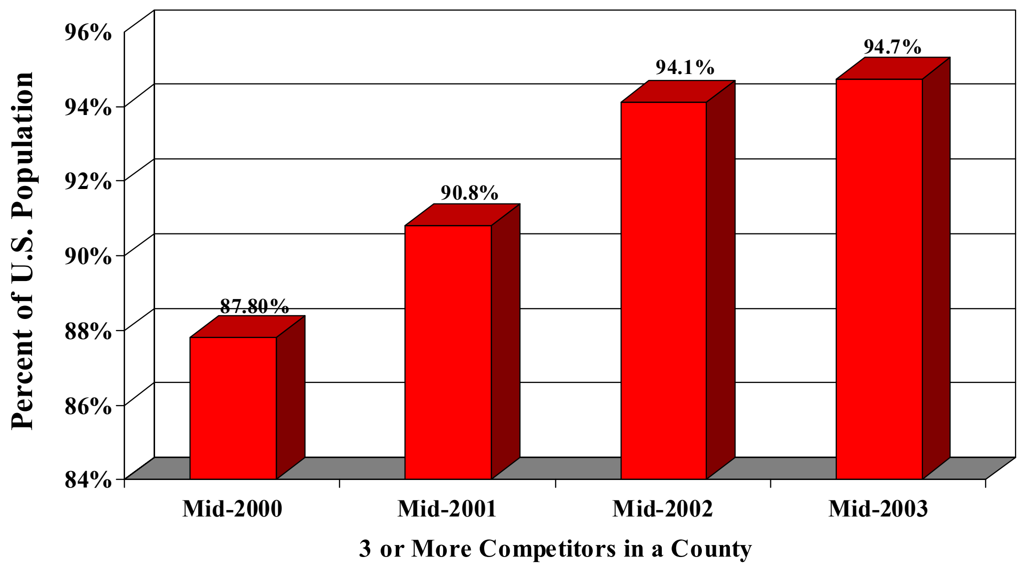
Wireless Services

This measure was added specifically for wireless phone services as a result of the events of September 11, 2001 to ensure continuity of service for users. The reliability of mobile wireless phone service can be estimated by looking at the percentage of the population that has a choice of facilities-based service providers (i.e., three or more). First, competitive pressures arising from the presence of multiple providers will tend to ensure that each operator must provide reliable service. If one did not, its customers would have the incentive and ability to switch to another provider. Second, in areas with two or more operators, if an operator should decide to discontinue service customers will have alternatives readily available.

Specifically, Figure 5 below shows the percentage of the U.S. population living in counties where three or more facilities-based mobile phone service providers have launched service. As of June 2003, 94.7% of the U.S. population lived in counties with access to 3 or more mobile telephone competitors.[22]

[20] "Trends in Telephone Service," page 20-2 and Table 20.3, August 2003.
[21] The most recent results for the availability of multichannel video services were reported in the FCC's FY 2002 Annual Financial Report. Updated data for FY 2003 will not be released until January 2004.
[22] FCC 03-150, "Eighth Annual Report: Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services," see Table 5. Adopted June 26, 2003, released July 14, 2003. (WT Docket No. 02-379)

Figure 5:
Wireless Reliability



Data source: Reliability is measured by percent of population living in counties with a choice of mobile competitors. As of mid-2003, 99.9% of the U.S. population lived in counties with 2 or more competitors.

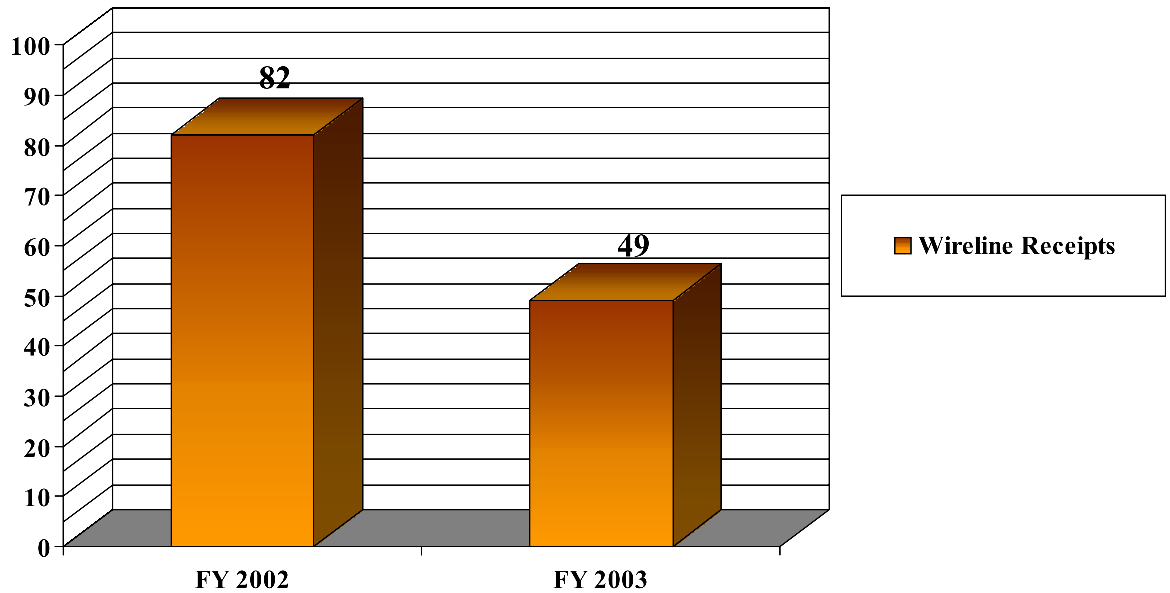
Wireline Services

In FY 2003, 49 applications were filed with the FCC under Section 214 of the 1996 Act for discontinuance of wireline service, a 40.2% reduction from FY 2002 with a total of 82 Section 214 applications filed. Section 214 requirements ensure that wireline service to communities may not be discontinued without advanced notice to the public and Commission authorization. The rules include procedures and filing requirements in a number of special situations, including impairment of telephone and telegraph service, emergency discontinuance, closure of public toll stations, closure at military establishments, and notification of service outages.

The FCC's goal is to ensure rapid restoration of wireline communications infrastructure in the event of disruption, and ensure that essential public health and safety personnel have effective communications services available to them in emergency situations. In the aftermath of the September 11, 2001, all Americans were reminded of the importance of reliable, easily available, and interoperable communications systems. Much of what the FCC does either directly or indirectly affects the national security or emergency preparedness telecommunications activities of the public and private sectors.

Figure 6 below depicts the number of telecommunications businesses that have filed Section 214 applications for disruption of wireline services. Additional information on Section 214 requirements can be found on the FCC website at: http://www.fcc.gov/wcb/cpd/other_adjud/Archive/welcome.html.

Figure 6:
Number of Telecommunications Businesses Filing for Disruption of Wireline Phone Services (Continuity of Service)



Data Source: Data is based on applications filed with the FCC under Section 214 by carriers that are discontinuing service.

Old Activity: **Spectrum Management**	New Goal: **Spectrum** ***Performance Goal:*** Ensure that the Nation's spectrum is used efficiently and effectively.
	4. Outcome Indicator: • Increasing deployment of new services making use of underutilized or unlicensed spectrum.

Accomplishments – Success in Achieving Outcome Indicator Results:

The Commission's strategic goal for spectrum is to encourage the highest and best use of spectrum domestically and internationally in order to encourage the growth and rapid deployment of innovative and efficient communications technologies and services. Spectrum encompasses the entire range of electromagnetic radio frequencies used in the transmission of sound, data, and video. The FCC and the National Telecommunications and Information Administration (NTIA) share responsibility for managing the spectrum. NTIA manages spectrum used by the Federal government (e.g., air traffic control and national defense) and the FCC is responsible for spectrum used by others, including individuals (e.g., garage door openers, wireless telephones, and computer modems), private organizations (e.g., radio and television broadcasters), and public safety and health officials (e.g., police and emergency medical technicians).

In FY 2003, the Commission adopted six rulemakings to increase the deployment and allocation of underutilized spectrum, whereby promoting the use of unlicensed spectrum.

- ✓ On October 30, 2002, the Commission adopted a Report and Order amending Part 74 of the rules pertaining to the broadcast auxiliary service (BAS) to permit BAS stations to introduce new technologies and create a more efficient BAS that can more readily adapt as the broadcast industry converts to the use of digital technology, such as digital television (DTV). The Report and Order can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-02-298A1.pdf.
- ✓ On November 7, 2002, the Commission adopted a 2nd Report and Order allocating a total of 90 megahertz to fixed and mobile services. This allocation consists of two contiguous 45-megahertz blocks suitable for the provision of advanced wireless services (AWS). The Report and Order can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-02-304A1.pdf.
- ✓ On January 29, 2003, the Commission adopted a 3rd Report and Order, 3rd Notice of Proposed Rulemaking, and 2nd Memorandum Opinion and Order. The Commission reallocated 30 megahertz of spectrum from the 2 GHz Mobile Satellite Service (MSS) to fixed and mobile services; allocated for fixed and mobile wireless services the 1990-2000 MHz, 2020-2025 MHz, and 2165-2180 MHz bands; and sought comment on use of the 1910-1920 MHz band, which is currently available for unlicensed personal communications service (UPCS) asynchronous (generally data) applications, but at present is unused. The Report and Order can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-16A1.pdf.
- ✓ On February 12, 2003, the Commission adopted a 2nd Report and Order and 2nd Further Notice of Proposed Rulemaking, which addressed the promotion of spectrum-efficient technologies on certain Part 90 frequencies in the private land mobile radio services (PLMRS). The Report and Order can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-34A1.pdf.
- ✓ On February 14, 2003, the Commission adopted a Report and Order that addressed the diversity of low power operations in the private land mobile radio (PLMR) 450-470 MHz band. The Report and Order can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-35A1.pdf.
- ✓ On February 25, 2003, the Commission adopted a Report and Order to implement domestically, various allocation decisions from International Telecommunication Union (ITU) World Radiocommunication Conferences concerning the frequency bands below 28 MHz. The Report and Order can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-39A1.pdf.
- ✓ On June 25, 2003, the Commission adopted the Third Report and Order, which revised the service area definition as well as the build out requirement for the Multichannel Video Distribution and Data Service in the 12.2-12.7 GHz band (12 GHz band). The Report and Order can be found on the FCC website at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-152A1.pdf.
- ✓ On August 7, 2003, the Commission adopted a Memorandum Opinion and Order, adopting service rules to govern the licensing of 27 MHz of electromagnetic spectrum in the 216-220 MHz, 1390-1395 MHz, 1427-1429 MHz, 1429-1432 MHz, 1670-1675 MHz, and 2385-2390 MHz bands, which were reallocated for non-Government use. The full text of the decisions can be found at: FCC-03-204A1.doc, FCC-03-204A1.txt, and FCC-03-204A1.pdf.

<table>
<tr><td rowspan="2">Old Activity:
Consumer Information Services / Enforcement</td><td>New Goal: **Media**
Performance Goal:
Facilitate the Congressionally mandated transition to digital television and further the transition to digital radio.</td></tr>
<tr><td>**5. Outcome Indicator:**
• Significant progress in the transition to digital television and radio.</td></tr>
</table>

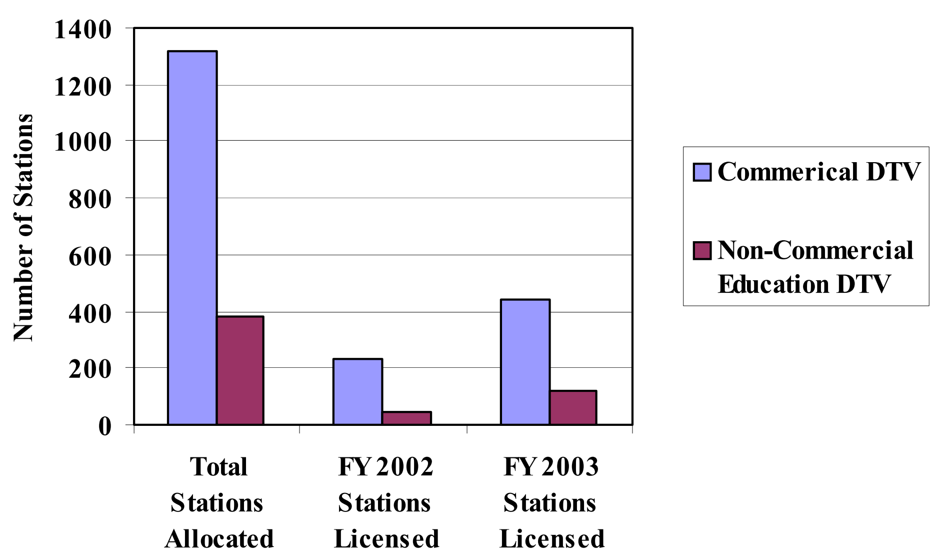
Accomplishments – Success in Achieving Outcome Indicator Results:

Digital Television

A total of 1,698 stations are allocated for digital television. Of the 1,698 stations allocated, 1,314 are allocated for commercial DTV stations, and 384 are allocated for non-commercial education DTV stations. By the end of FY 2003, a total of 559, or 32.9%, of the stations were licensed for digital transmission. This represents an increase from FY 2002, when a total of 278 or 16.4% of the stations were licensed. Of these 559 stations, the FCC licensed 438 (33.3%) of the commercial DTV stations and 121 (31.5%) of the non-commercial education DTV stations for digital transmission. This represents an increase from FY 2002, when a total of 233 (17.7%) of the commercial DTV stations and 45 (11.7%) of the non-commercial education DTB stations were licensed for digital transmission. An increase in the number of television stations broadcasting digitally led to an increased consumer demand for improved television service and for the development of new DTV technology and competition.

Figure 7 below shows the total number of stations allocated for digital television, and compares that total to the total number of stations that were licensed for digital transmission in FY 2002 and FY 2003. The graph denotes commercial DTV stations as well as non-commercial education DTV stations.

Figure 7:
Transition to Digital Television



Data Source: The Media Bureau collects data from licensees through Form DTV-302. A total of 1,314 commercial and 384 non-commercial education television channels are allocated for DTV.

Digital Radio

In October 2002, the Commission adopted a Report and Order selecting a digital transmission technology. Following its review of extensive tests, the Commission authorized digital FM and digital daytime AM operations. This action permits, but does not require, broadcasters to begin providing terrestrial digital radio service immediately. The pace and extent of implementation will be determined by broadcasters, consumers, and consumer electronics manufacturers. The Report and Order can be found on the FCC website at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-02-286A1.pdf. The FCC expects to adopt a Further Notice of Proposed Rulemaking in FY 2004. A Second Report and Order to adopt transmission standards, technical standards, and service and licensing rules is also expected in FY 2004.

During FY 2003, a total of 72 radio stations were granted Special Temporary Authority (STA) to operate digitally. Data on digital terrestrial radio is collected when applicants file for or request a STA.[23]

Old Activity: **Spectrum Management**	New Goal: **Homeland Security** ***Performance Goal:*** Promote the reliability, security, and survivability of the communications infrastructure.
	6. Outcome Indicator: • Increasing amounts of spectrum available for public safety communications.

Accomplishments – Success in Achieving Outcome Indicator Results:

In FY 2003, the Commission granted 9,701 applications for new or modified stations in the public safety bands (e.g., microwave, 4.9 GHz, 800 MHz, 220 MHz).

In the aftermath of the September 11, 2001 terrorist attacks, all Americans were reminded of the importance of reliable, easily available, and interoperable communications systems – both for emergency personnel responding to a tragedy and individuals checking on friends and family. Much of what the FCC does either directly or indirectly affects homeland security or emergency preparedness telecommunications activities of the public and private sectors.

To fully and effectively carry out its role in promoting homeland security, network protection, interoperability, redundancy, and reliability, the FCC has established the following objectives:

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

On February 13, 2003, the Commission adopted a Memorandum Opinion and Order that largely reaffirmed the procedures adopted in 2002 to authorize the unlicensed operations of ultra-wideband devices. Minor changes were implemented to further facilitate the operation of imaging devices (i.e., through-wall imaging systems by law enforcement, emergency rescue and firefighter personnel in emergency situations, etc.). See: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-33A1.pdf.

[23] The FCC did not begin issuing digital radio authorizations (Special Temporary Authority/notification) until FY 2003.

On May 2, 2003, the Commission released a Memorandum Opinion and Order and Third Report & Order that established licensing and service rules for the 4940 – 4990 MHz (4.96 MHz) band to promote effective public safety communications and innovation in wireless broadband services in support of public safety. See: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-99A1.pdf.

On July 10, 2003, the Commission announced its Homeland Security Action Plan. The plan defines the Commission's homeland security goals as well as the approach it will take to achieve these goals. The plan relies heavily on partnerships with other government entities, industry, and citizen groups and consists of two objectives: (1) strengthen measures for protecting the nation's communications infrastructure and facilitate rapid service restoration after disruption; and (2) promote access to effective communications services by public safety, public health, and other emergency personnel. To further the efforts to promote homeland security, the Commission also announced the creation of an Office of Homeland Security in the Enforcement Bureau that will provide consolidated support for the Commission in meeting its homeland security and emergency preparedness responsibilities. In addition, the office will be responsible for rulemaking proceedings relating to the Emergency Alert System and will oversee the operation of the FCC's 24-hour Communications and Crisis Management Center and its Emergency Operations Center. The action plan can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-236428A2.pdf.

Old Activity: **Licensing**	New Goal: **Modernize the FCC** ***Performance Goal:*** Become a more responsive, efficient, and effective agency capable of facing the technological and economic opportunities of the new millennium.
	7. Outcome Indicator: • Reducing the average time required to complete rulemakings (knowledge management).

Accomplishments – Success in Achieving Outcome Indicator Results:

In FY 2003, the FCC initiated a pilot project to improve productivity, decision-making, and collaboration in the policy and rulemaking process. The main goals for the technology investment for the policy and rulemaking process are to:

- Increase the quality of FCC decision-making by allowing employees to focus less on the administrative aspects of the process and more on the value-added aspects such as analysis and collaboration, and by improving the accuracy in retrieving research material.
- Increase the timeliness of FCC decision-making by reducing the administrative burden on staff, and by introducing improved search tools to reduce time spent tracking FCC's knowledge assets.
- Increase employee satisfaction by streamlining the less substantive parts of the process.

Figure 8 below identifies the average time required to complete rulemakings during FY 2003 as compared to previous years.[24] During FY 2003, the FCC released several major, high profile rulemakings, such as the Triennial Unbundled Network Element (UNE) Review (372 days), Advanced Wireless Services (3-G) (379 days), Third Biennial Review Report of Broadcast Ownership Rules (475 days), that averaged 408.6 days from initiation to circulation causing a substantial increase in processing time as compared to FY 2002.

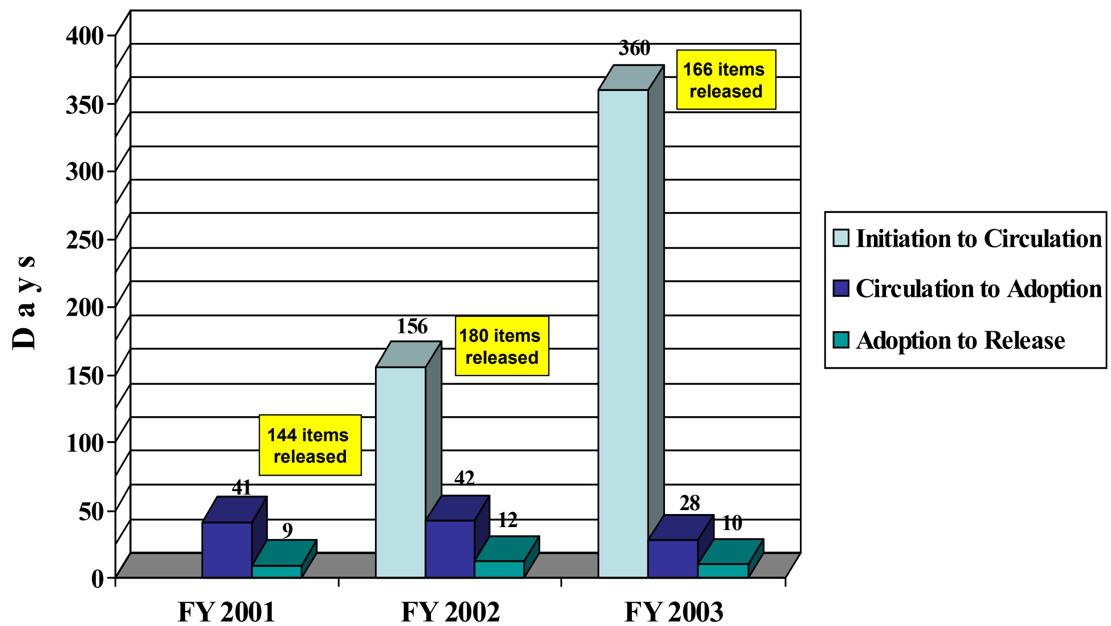
[24] The source of data for these statistics is FCC's Expanded Management Tracking System database as well as the ClasPlus system.

Where we did not Achieve our Outcome Indicator Results:

In addition to these three high profile rulemakings, the data for "Initiation to Circulation" is skewed in FY 2003 as a result of recent efforts to expedite the rulemaking process by completing action on backlogged items. Nine of the rulemakings included in the data for "Initiation to Circulation" were initiated between the start of 1995 and the end of 1999. These nine rulemakings were put into circulation as part of a Commission-wide effort to dispose of backlogged items. These rulemakings account for 17,297 days of the total number of days from "Initiation to Circulation" and significantly impact the results.

Expediting the rulemaking process is also part of the FCC's current Improving the Management of Policy Activities through Collaborative Technologies" (IMPACT) Project. IMPACT will implement document management, workflow, knowledge management and collaboration tools, and new document editing capabilities to increase the timeliness of policy and rulemaking activities.

Figure 8:
Average Time Required to Complete Rulemakings



"Initiation to Circulation" statistics for FY 2001 are not available.

Verification, Validation, and Program Evaluation

The FCC is dedicated to ensuring that both the mission and resources entrusted to it are properly and effectively managed. The FCC uses numerous methods and techniques to verify and validate the completeness and reliability of data underlying its outcome indicators. Methods include: certifications of reliability from data providers, a general program of review and evaluation carried out by the Performance Evaluation and Records Management (PERM) staff in the Office of the Managing Director (OMD), and audits, reports, and reviews performed by other groups such as the Office of Inspector General (OIG) and General Accounting Office (GAO). The performance of the FCC is also evaluated through the Annual Program Performance Report.

Because the performance measures in this report are based on the revised Strategic Plan, and in some cases are new, baseline and trend data are provided as far back as it is available. In general, the expected data sources are internal reports generated by various FCC bureaus and offices,[25] which are often combinations of internally-generated data and externally provided data from government surveys such as the Current Population Survey and industry data. In other cases it is provided by outside sources, as noted.

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 OMD 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, regulation, and guidance.

In the FCC's efforts to achieve compliance with applicable legislation, regulation, and guidance, it is necessary to have effective management and system controls in place. The FCC has established or updated formal policies and procedures regarding the processing, maintaining, and reporting of financial information. Most recently, the FCC established formal policies and procedures for the estimation, assessment, and collection of regulatory fees. 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 2002 financial statement audit. FCC's efforts to address improvements are described below.

Systems

The Financial Systems Operations Group, within the OMD, 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
- Budget Execution and Management 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 DOI's 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) perform 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 collections, accounts receivables, and loan management specific to the FCC. It is designed to interface with the FCC's central accounting system, FFS, and licensing systems throughout the Commission. Once all reporting modules are complete, all collection activity of the FCC, with the exception of loans, will be recorded and tracked in RAMIS. RAMIS will also record the collection of receipts, produce dunning letters for past due accounts, and track account forfeitures submitted to the U.S. Department of the Treasury (Treasury), if under $100,000, or to the Office of General Counsel (OGC) for referral to the Department of Justice (DOJ), if over $100,000, 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 2003 audit, the RAMIS system is serving as the system of record for all fines and forfeitures activities as well as the

[25] Data from FCC programmatic reports and application processing systems, inquiry and complaint tracking systems, enforcement reporting systems, and hiring and training systems.

processing of application and regulatory fees, and miscellaneous accounts receivables. It also records collections received from the lockbox bank in parallel with the Collections System.

The Collections System is a custom-built database application designed to store and display all collections accounting information for the FCC. It is designed to interface with licensing and other systems throughout the Commission.[26]

At the end of FY 2002, the FCC entered into a cross-servicing agreement with DOI to implement cost allocation software, BEAMS, in FY 2004. BEAMS will provide a robust and integrated addition to the Commission's financial management systems that will support the partnership between program and financial managers, assuring the integrity of information for decision making, and measuring the full cost of the FCC's programs and their various elements, activities, and outputs. BEAMS will fully support tracking FCC outputs, programs and activities at the 2003-2008 Strategic Plan goals, performance goals and output levels. The system will support the Statement of Net Cost for the financial statements, as well as detailed budget execution and FTE reporting in support of improved management of Commission resources. As such, BEAMS will better enable the FCC to meet the President's Management Agenda requirement to link budget and performance.

Not included as part of its financial systems, but still an important financial management tool for FCC management in FY 2003 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 RAMIS. The Loan Model Spreadsheets have been maintained by an outside contractor throughout the course of the year and have served as the basis for calculation of FCC's subsidy reestimate and 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, document management, and Uniform Commercial Code (UCC) review and filing services. The FCC completed the transfer of loan data to its new loan service provider by September 30, 2003, with the full loan servicing implementation as of October 1, 2003. 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 desktops, thereby eliminating the need to manually store and research files.

Internal Controls

The FCC has in place numerous internal controls over financial reporting that provide reasonable assurance 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, and 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 the Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*.

The FCC received an unqualified opinion in FY 2002. However, the auditors found material weaknesses and reportable conditions. The Independent Auditor's Report on Internal Control included at the end of this report details the FCC's efforts to address these issues in FY 2003.

In accordance with the Federal Managers' Financial Integrity Act (FMFIA), the FCC identified corrective actions taken during FY 2003 for the purpose of addressing material weaknesses and reportable conditions related to internal controls. The FCC created a team to address all findings in the internal control report. The team identified items that can be resolved in the short- (this fiscal year), medium- (next fiscal year), and long-term. While steps are being taken to address all of the above-mentioned issues, the FCC has placed significant emphasis on the following issues related to FY 2003 financial reporting:

[26] The Collections System is running in parallel with RAMIS as a back-up system until RAMIS is fully operational.

- Financial Reporting: implemented RAMIS for fines and forfeitures activities as well as the processing of application and regulatory fees, and miscellaneous accounts receivables, in December 2002, tested the processing and integration of loan servicer transactions, and increased oversight of USF reporting through input and review of key USF policy changes;
- Cost Accounting: continued improvements in the cost accounting system, including reminders to employees on the importance of properly coding time and referral to location for explanations of the activities; as noted earlier, the implementation of BEAMS is expected in FY 2004;
- USF and TRS Financial Reporting: approved order requiring USF compliance with all Federal financial regulations, and increased controls over the financial reporting of USAC, including policies and procedures requiring more stringent review of payments to entities on watch list;
- Auction Related Subsidiary System: continued efforts to address certain FCC fund specific issues to improve the financial reporting process, including expansion of monthly reconciliation procedures to include a cumulative roll-forward for all phases of the Auctions process;
- FCC Loan Subsidiary Ledgers: initiated reconciliation of the loan servicer, RAMIS, and loan spreadsheet data each month until all differences are cleared; and
- Information Technology: developed an IT strategic plan to satisfy the OMB A-130 requirement as well as a system security plan for all major applications.

The FCC also identified corrective action plans for non-conformances including: identifying system requirements for RAMIS to generate reports related to regulatory fee payments; developing a process flow to identify regulatory fee "red light" candidates and a system for individuals to obtain information on the status of outstanding receivables; developing an interface between RAMIS and FFS to handle posting of deferred revenue and Auctions revenue through RAMIS; updating financial statements for multi-year regulatory fees; changing the accrued liability procedures to record an estimate of unrecorded services based on past history; securing an outside contractor to perform audits of all employees with leave discrepancies and sending periodic notices reminding employees of time coding policies; developing DCIA procedures for USF, TRS, and NANP and evaluating new Treasury proposals on forwarding delinquent debt; committing adequate resources for the management of the RAMIS project; submitting a Capital Asset Plan and Business Case for RAMIS; and conducting reviews of security controls for major applications. In addition, the FCC is addressing other concerns, including incorporating a comparison of the fund balance against unexpended appropriations into its financial statement crosswalk and comparing these balances quarterly; resolving several property, plant and equipment items such as distinguishing capitalized versus non-capitalized costs, consistent with policies and procedures; and establishing a new reconciliation process for RAMIS, among other changes.

Looking Ahead – Possible External Factors Impacting FCC Performance

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. These external factors may affect the continued development of competition in telecommunications markets.

An overview of these factors follows:

- Convergence-driven competition depends heavily on *market and economic uncertainties*. The slowdown in the U.S. economy has significantly limited the availability of capital for investment in improved products and services. The telecommunications industry has been particularly impacted by the economic downturn. Over the past year, capital expenditures in telecommunications declined almost by half. Telecommunications companies and their equipment suppliers have lost more than $2 trillion in value over the past year. During this time of economic and financial upheaval, the industry continues to face mergers, which may impact the pace of investment in these networks, and competition may be slower to develop. In addition, bankruptcies and recent legal proceedings have led to a reexamination of enforcement activities, including auditing and accounting reviews of common carriers. While the FCC has taken measures to ensure that the American public continues to have uninterrupted access to essential communications services, the current state of the telecommunications industry will continue to affect the economic viability of both conventional and technologically innovative new communications services.

- Across all of the varied technology platforms used to deliver communications – traditional wireline, cable, wireless, satellite, etc. – massive investment has been made to improve and expand network capacity. The ability to achieve return on this investment hinges on *consumer demand* for this new capacity and the services that it can deliver. Concurrently, technology improvements have increased the efficiency of capacity utilization – making it easier to use less. These strategies appear to have begun to pay off with consumer adoption increasing as prices fall. The business models of many new competitors hinge on combining multiple existing and new services on a single service delivery platform. 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.
- 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.

> ***"With the events of September 11th [2001], it has become imperative that the communications community come together to determine our role in ensuring homeland security. We must be aggressive in ensuring that our policies maximize the many efforts being made to make our nation safe. We will work with industry to ensure the reliability and security of our nation's communications infrastructure."***
>
> *Chairman Michael K. Powell*
> *Press Conference, October 23, 2001*[27]

- The Commission's ability to achieve its goals and objectives in the future could also be affected by *the unpredictable*. As September 11, 2001 demonstrated, factors beyond the FCC's control could add significant new responsibilities and demands on the FCC. Events such as "9/11" emphasized an increased need to ensure the reliability and interoperability of the nation's communications networks. In addition, the FCC cannot predict possible future actions by Congress, which may change Federal laws and potentially affect FCC's responsibilities and workload. Nor can the FCC anticipate the outcome of litigation.
- Finally, the Commission's ability to carry out its vision also is largely dependent on *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 FCC is upgrading systems to improve cost accounting, budget formulation, and FTE tracking. The transition will begin in FY 2004. This

[27] Press conference on "Digital Broadband Migration, Part II," October 23, 2001.

system will improve the Commission's ability to appropriately allocate resources and to more accurately link budget to performance. The FCC's success is tied directly to its ability to maintain critical staffing levels and adequate funding. Moreover, for the FCC to fulfill its congressional charge, it will continue to execute its Strategic Plan (FY 2003-2008) built along the six strategic goals: broadband, competition, spectrum, media, homeland security, and modernize the FCC.

Highlights of the FY 2003 Financial Results

Future Effects of Current Demands

Since 1994, the FCC has conducted auctions of licenses for 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 have submitted timely upfront payments sufficient to make them eligible to bid on at least one of the licenses for which they applied.

NextWave

In FY 2001, Auction No. 35 offered a total of 422 licenses covering 195 markets for C and F Block Broadband Personal Communications Service (PCS) (January 2001). In Auction No. 35, the FCC reauctioned spectrum associated with the licenses won by NextWave ("Auction No. 35 Spectrum Licenses") and for which the company defaulted on its payments.[28] Due to the Supreme Court's decision in *Federal Communications Commission v. NextWave Personal Communications, et al.,* 537 U.S. 293, the FCC has clarified that its automatic cancellation rule was ineffective. In a series of actions by the FCC, the deposits of all 22 winning bidders for the Auction No. 35 Spectrum Licenses have been refunded in the aggregate amount of $3.3 billion.

On September 26, 2003, NextWave and subsidiaries of Cingular Wireless LLC ("Cingular") filed applications pursuant to Section 310(d) of the Act, as amended. In these applications, the parties seek Commission consent to either fully or partially assign C and F Block broadband PCS licenses in thirty-four markets from NextWave to Cingular. If approved by the Commission, Cingular will obtain nearly 20% of NextWave's licensed spectrum for $1.4 billion. On October 6, 2003, the FCC issued a public notice regarding the assignment to Cingular.[29] The licenses at issue are subject to installment payment financing and Cingular is not a qualified designated entity. As part of its approval of the applications, the parties request that the Commission grant waivers of sections 1.2111 and 24.714 of its rules, or explicitly state that delivery of such payment constitutes full payment, and satisfies all conditions, required under such sections.

The recovery and timing of recovery on loans in default are key factors in the FCC's calculation of its annual credit reform subsidy. For the FCC's FY 2003 and FY 2004 credit subsidy re-estimates, which are reflected in the FY 2002 and FY 2003 financial statements respectively, the FCC calculated, in accordance with OMB guidance, a 100% recovery rate for the NextWave licenses with receipt in the first quarter of FY 2005. The Supreme Court decision does not address the amount of the debt obligation of NextWave as a result of its winning bids for the licenses. Any dispute regarding the amounts owed by NextWave for the licenses, and the timing of future recoveries was not affected by and has not changed as a result of the Supreme Court ruling. Any dispute regarding these issues are likely to be resolved as part of NextWave's bankruptcy proceedings. As a result, the FCC has not made additional changes to these financial statements for this event.

[28] *NextWave* filed for bankruptcy protection in June 1998.
[29] DA 03-3031, "Cingular Wireless and NextWave seek FCC consent for the Full and Partial Assignment of Thirty-four Broadband Personal Communications Licenses, WT Docket No. 03-217, released October 6, 2003.

Results of Financial Position and Operations

In anticipation of the accelerated FY 2004 financial statement issuance date of November 15, 2004, the FCC performed an assessment in FY 2003 of areas where the timeliness of the statements could be improved through the use of accrued estimates versus actual data. Two areas identified and converted to the accrual process for FY 2003 are the accrual of year-end accounts payable and the accrual of unpaid regulatory fees. In the past, the FCC has waited for information to come in after year-end in order to determine these figures. In FY 2003, the FCC accrued these balances based on a combination of past history and available current year data. The FCC will continue to gather actual data after year-end for comparison and adjustment purposes however the bases for these figures will be estimated going forward. As noted below, a similar change was made for the credit subsidy calculation.

A significant aspect of the FCC's operations is managing its Spectrum Auction Direct Loan portfolio (Spectrum Auction). In FY 2003, the net loans receivable balance, which represents installments due from loans under the Spectrum Auction program, was approximately $4.4 billion, representing more than half of the Commission's total assets of $8.2 billion.

Subsidy Reestimate

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

The FCC's FY 2004 subsidy reestimate was completed to reflect the actual loan performance through June 30, 2003 and projected performance through September 30, 2003. The result of this reestimate was a net upward adjustment (increase in the subsidy cost) totaling $380.0 million in the Spectrum Auction program. An additional $216.9 million increase due to interest on the reestimate, which represents the amount of interest that would have been paid if the reestimate had been included as part of the original subsidy estimate, is also recognized. This reestimate is reported in the FCC's FY 2003 financial statements, but will not be reported in the budget until FY 2004. The average subsidy rate increased from 48.4% in the FY 2002 financial statements to 52.2% in the FY 2003 financial statements.

The FY 1997 C and F Block installment loans account for 97% of all of the Spectrum Auction loans. As a result, they represent the most significant components of the subsidy cost.

The FY 2004 subsidy cost reestimate of the C Block FY 1997-cohort as included in the FY 2003 financial statements was 56.5%, an increase from 54.3% in the FY 2002 financial statements, which equated to a subsidy cost of $5.1 billion, an increase from $4.9 billion the prior year. The F Block FY 1997 cohort subsidy rate as included in the FY 2003 financial statements was -13.6%, an increase from -44.7% in the FY 2002 financial statements, which equated to a subsidy cost of -$67.4 million, an increase from -$222 million the prior year.

The subsidy reestimates for the C and F Block 1997-cohorts changed primarily because of a reduction in estimated recoveries on Urban Comm licenses in Auction No. 35. In the FY 2003 reestimate, the recoveries from the resale of defaulted licenses (except NextWave related licenses) through Auction No. 35 were projected at the winning bid amount for these licenses including Urban Comm. In the FY 2004 reestimate, the recoveries from the Urban Comm licenses were treated in the same manner as NextWave licenses, which was at the full value of defaulted principal amount (an amount less than what was previous projected). In addition, the timing of recovery collections was extended from the third quarter FY 2003 to the first quarter of FY 2005.

The Narrowband FY 2004 subsidy rate included in the FY 2003 financial statements was 76.7%, an increase from 55.0% in the FY 2002 financial statements, which equated to a subsidy cost of $93.3 million, an increase from $66.9 million the prior year. The subsidy cost increased for Narrowband in the FY 2004 reestimate primarily due to the revised recovery assumption. In the FY 2004 reestimate, recovery expectations declined to $1 million (a net decrease of $51.7 million in the recovery amount from FY 2003 reestimate). The previous reestimate assumed recoveries of 50% of outstanding principal balance of the defaulted licenses.

The Interactive Video and Data Service (IVDS) FY 2004 subsidy rate included in the FY 2003 financial statements was 85.7%, an increase from 81.1% in the FY 2002 financial statements, which equated to a subsidy cost of $75.9 million, an increase from $71.8 million the prior year. The subsidy cost increased for IVDS in the FY 2004 reestimate as a result of an increase in the number of actual defaults.

Regulatory Fee Collections

Section 6003(a) of the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66) added a new Section 9 to the Act. Section 9(a) of the Act authorizes the Commission to assess and collect annual regulatory fees to recover its regulatory costs, including enforcement, policy and rulemaking, user information, and international activities. The amount the FCC is required to recover is included in the FCC's appropriations made annually by Congress. Regulatory fees are collected and deposited directly into the U.S. Treasury to offset the FCC's appropriations for the current fiscal year. In FY 2003, FCC was expected to collect $269.0 million; the Commission collected $265.7 million.

Other Key Financial Statement Highlights

Borrowers are required to repay loans on a quarterly basis and are allowed to prepay their loans without penalties. In FY 2003, 93 loans were paid off. Collections resulting from 51 loan payoffs, which include principal, interest, suspension interest, and late fees, totaled $44.2 million. When compared with the FCC's total collections of $108.5 million in principal, interest, suspension interest, and late fees, these 51 loan payoffs represent approximately 41% of all collections. In addition, in FY 2003, there were $50.5 million in non-cash auction discount voucher transactions related to 42 payoffs. When compared with the FCC's total non-cash transactions of $58.6 million in principal, interest, suspension interest, and late fees, these 42 loan payoffs represent approximately 86% of all non-cash transactions.

The Debt Collection Improvement Act of 1996 requires Federal agencies to transfer to the Treasury for debt collection any non-tax debt that is over 180 days delinquent. In cases where delinquency occurs, the full amount of outstanding debt including, but not limited to, outstanding principal, past-due interest, and late fees, will be accelerated and must be paid in full. Failure to pay in full upon demand results in the transfer of the debt to Treasury for debt collection and the assessment of additional interest, penalties, and other administrative charges. In FY 2003, the FCC transferred to Treasury 76 loans totaling $33.7 million for collection, and accounts receivable totaling nearly $1.6 million.

FCC's assets include its Fund Balance with Treasury and Cash and Other Monetary Assets. The $875 million decrease over FY 2002 in Fund Balance with Treasury is explained by the release of the remaining refunds in Auction No. 35 totaling $489 million and the repayment of Treasury debt using $468 million in auction recoveries collected in FY 2002. Larger carryover balances in several other funds offset these decreases.

The FCC's most significant liability account is Debt of $5.1 billion. Debt includes $5.0 billion owed to Treasury for borrowing related to credit reform installment loans, and $56 million in debt with the public for one voucher issued as a result of litigation. Deferred Revenue decreased by $475 million over FY 2002, again, primarily as a result of the Auction No. 35 refunds of $489 million. Funds received as the result of continued auctions and deferred revenue added for the USF and NANP entities offset the Auction No. 35 decrease.

The net cost of FCC operations for FY 2003 was $6.0 billion, which was allocated to the five activities of the FCC: Consumer Information Services, Enforcement, Competition, Licensing, and Spectrum Management, as well as to Credit Reform, the USF and NANP. The $291.6 million represents a 5% increase over FY 2002.

The FCC's budget authority in FY 2003 was $562 million, and an additional $5,743 million for USF, which in total represents a $589 million increase over FY 2002. The difference is contributed primarily to the increase in upward reestimate authority of $398 million from $133 million in FY 2002 to $531 million in FY 2003.

Another significant dimension of the financial statements is the USF. The Fund met all obligations during the year. Management expects the Fund to continue to meet all obligations presented.

The USF had total expenses of $5.6 billion in FY 2003. Net revenue of $5.8 billion exceeded total expenses by $234 million. The total net assets of the Fund were $3.4 billion. Those assets are sufficient to meet the total liabilities of the Fund and consideration of the best way to reduce the growing fund balance in this program is underway at the FCC.

Limitations of the Financial Statements

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

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

II. FINANCIAL STATEMENTS

Federal Communications Commission
Consolidated Balance Sheet
As of September 30, 2003 and 2002
(dollars in thousands)

	2003	2002
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 409,998	$ 1,285,165
Accounts Receivable (Note 6)	10,451	3,041
Total Intragovernmental	420,449	1,288,206
Cash and Other Monetary Assets (Note 4)	2,412,912	2,347,998
Investments (Note 5)	326,389	328,194
Accounts Receivable, net (Note 6)	648,690	515,359
Loans Receivable, net (Note 7)	4,428,805	5,259,258
General Property, Plant, and Equipment, net (Note 9)	44,066	41,813
Other	-	2
Total Assets	$ 8,281,311	$ 9,780,830
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	$ 10	$ -
Debt (Note 11)	5,065,438	5,770,915
Other (Note 12)		
Custodial	230,052	691,662
Other	1,304	1,074
Total Other	231,356	692,736
Total Intragovernmental	5,296,804	6,463,651
Accounts Payable	405,187	410,171
Debt Held by the Public (Note 11)	55,848	114,425
Other (Note 12)		
Deferred Revenue	76,823	551,450
Other	95,354	113,990
Total Other	172,177	665,440
Total Liabilities	$ 5,930,016	$ 7,653,687
Commitments and Contingencies (Note 14)		
NET POSITION		
Unexpended Appropriations	$ 43,055	$ 22,158
Cumulative Results of Operations	2,308,240	2,104,985
Total Net Position	2,351,295	2,127,143
Total Liabilities and Net Position	$ 8,281,311	$ 9,780,830

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidated Statement of Net Cost
For the Years Ended September 30, 2003 and September 30, 2002
(dollars in thousands)

	2003	2002
PROGRAM COSTS:		
Licensing:		
Intragovernmental gross costs	$ 19,891	$ 18,805
Less: Intragovernmental earned revenue	(293)	(274)
Intragovernmental net costs	19,598	18,531
Gross costs with the public	53,282	55,448
Less: Earned revenues from the public	(83,607)	(76,853)
Net costs with the public	(30,325)	(21,405)
Total net cost	(10,727)	(2,874)
Competition:		
Intragovernmental gross costs	$ 30,151	$ 27,368
Less: Intragovernmental earned revenue	(426)	(386)
Intragovernmental net costs	29,725	26,982
Gross costs with the public	80,772	80,624
Less: Earned revenues from the public	(122,055)	(108,113)
Net costs with the public	(41,283)	(27,489)
Total net cost	(11,558)	(507)
Enforcement:		
Intragovernmental gross costs	$ 19,629	$ 17,899
Less: Intragovernmental earned revenue	(271)	(247)
Intragovernmental net costs	19,358	17,652
Gross costs with the public	52,587	52,728
Less: Earned revenues from the public	(77,608)	(69,073)
Net costs with the public	(25,021)	(16,345)
Total net cost	(5,663)	1,307
Consumer Information Services:		
Intragovernmental gross costs	$ 10,297	$ 8,994
Less: Intragovernmental earned revenue	(142)	(125)
Intragovernmental net costs	10,155	8,869
Gross costs with the public	27,586	26,495
Less: Earned revenues from the public	(40,590)	(34,859)
Net costs with the public	(13,004)	(8,364)
Total net cost	(2,849)	505
Spectrum Management:		
Intragovernmental gross costs	$ 14,621	$ 10,382
Less: Intragovernmental earned revenue	(210)	(147)
Intragovernmental net costs	14,411	10,235
Gross costs with the public	39,166	30,584
Less: Earned revenues from the public	(60,178)	(41,139)
Net costs with the public	(21,012)	(10,555)
Total net cost	(6,601)	(320)

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidated Statement of Net Cost
For the Years Ended September 30, 2003 and September 30, 2002
(dollars in thousands)

	2003	2002
Universal Service:		
Intragovernmental gross costs	$ 653	$ 463
Less: Intragovernmental earned revenue	(9)	(7)
Intragovernmental net costs	644	456
Gross costs with the public	5,562,217	5,282,968
Less: Earned revenues from the public	(2,559)	(1,807)
Net costs with the public	5,559,658	5,281,161
Total net cost	5,560,302	5,281,617
Numbering:		
Gross costs with the public	9,871	9,685
Less: Earned revenues from the public	(4,997)	(11,010)
Net costs with the public	4,874	(1,325)
Total net cost	4,874	(1,325)
Credit Reform:		
Intragovernmental gross costs	$ 392,486	$ 416,251
Less: Intragovernmental earned revenue	(39,718)	(26,000)
Intragovernmental net costs	352,768	390,251
Gross costs with the public	612,704	521,095
Less: Earned revenues from the public	(412,601)	(399,705)
Net costs with the public	200,103	121,390
Total net cost	552,871	511,641
Total Net Program Costs	$ 6,080,649	$ 5,790,044
Cost not Assigned to Programs:		
Depreciation	$ 13,007	$ 10,716
Telecommunications Development Fund	22	262
Other Expenses	549	1,313
Less: Earned Revenues not Attributed to Programs:		
Telecommunications Development Fund	$ (22)	$ (262)
Net Cost of Operations (Note 15)	$ 6,094,205	$ 5,802,073

The accompanying notes are an integral part of these statements

Federal Communications Commision
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2003 and September 30, 2002
(dollars in thousands)

	2003 Cumulative Results of Operations	2003 Unexpended Appropriations	2002 Cumulative Results of Operations	2002 Unexpended Appropriations
Beginning Balances	$ 2,104,985	$ 22,158	$ 2,241,358	$ 24,012
Prior period adjustments (Note 16)	-	-	(22,073)	-
New Reporting Entity	-	-	10,781	-
Beginning balances, as adjusted	2,104,985	22,158	2,230,066	24,012
Budgetary Financing Sources:				
Appropriations received	-	802,038	-	387,428
Appropriations transferred in/out (+/-)	-	-	-	-
Other adjustments (recission, etc) (+/-)	-	(266,737)	-	(220,338)
Appropriations used	514,404	(514,404)	168,944	(168,944)
Transfers-in/out without reimbursement (+/-)	(5,700)	-	-	-
Universal Service Fund Nonexchange Revenue	5,795,335	-	5,518,572	-
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)	(19,952)	-	(21,284)	-
Imputed financing from costs absorbed by others	13,404	-	11,069	-
Other (+/-)	(31)	-	(309)	-
Total Financing Sources	6,297,460	20,897	5,676,992	(1,854)
Less: Net Cost of Operations	6,094,205		5,802,073	
Ending Balances	$ 2,308,240	$ 43,055	$ 2,104,985	$ 22,158

The accompanying notes are an integral part of these statements

Federal Communications Commission
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2003 and September 30, 2002
(dollars in thousands)

	2003 Budgetary	2003 Non Budgetary Credit Program Financing Account	2002 Budgetary	2002 Non Budgetary Credit Program Financing Account
Budgetary Resources:				
Budget Authority				
Appropriations Received	$ 6,279,518	$ -	$ 5,711,907	$ -
Borrowing Authority	-	25,346	-	4,456
Unobligated Balance:				
Beginning of Period	2,245,581	21,569	1,917,318	18,175
Spending Authority from Offsetting Collections:				
Earned				
Collected	447,725	1,147,715	312,914	762,860
Receivable from Federal Sources	-	-	7	-
Changed Unfilled Customer Orders				
Without Advance from Federal Sources	(472)	-	1	-
Anticipated for rest of year, without advances	-	-	-	-
Subtotal	8,972,352	1,194,630	7,942,147	785,491
Recoveries of Prior Year Obligations	7,765	-	6,958	-
Permanently not available	(66,860)	(730,823)	(15,524)	(343,145)
Total Budgetary Resources	$ 8,913,257	$ 463,807	$ 7,933,581	$ 442,346
Status of Budgetary Resources:				
Obligations Incurred (Note 17):				
Direct	$ 6,895,344	$ 417,776	$ 5,686,628	$ 420,777
Reimbursable	1,684	-	1,372	-
Subtotal	6,897,028	417,776	5,688,000	420,777
Unobligated Balance:				
Apportioned	-	-	-	-
Exempt from Apportionment	2,001,673	-	2,228,067	-
Unobligated Balance not Available	14,556	46,031	17,514	21,569
Total Status of Budgetary Resources	$ 8,913,257	$ 463,807	$ 7,933,581	$ 442,346
Relationship of Obligations to Outlays:				
Obligated Balance, net, Beginning of Period	$ 452,831	$ -	$ 407,397	$ -
Obligated Balance, net, End of Period:				
Accounts Receivable	405	-	405	-
Unfilled Customer Orders from Federal Sources	(60)	-	(532)	-
Undelivered Orders	70,646	-	43,592	-
Accounts Payable	409,886	-	409,366	-
Outlays:				
Disbursements	6,861,689	417,776	5,635,599	420,777
Collections	(447,725)	(1,147,715)	(312,914)	(762,860)
Subtotal	6,413,964	(729,939)	5,322,685	(342,083)
Less: Offsetting Receipts	19,952	-	21,284	-
Net Outlays	$ 6,394,012	$ (729,939)	$ 5,301,401	$ (342,083)

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidated Statement of Financing
For the Years Ended September 30, 2003 and September 30, 2002
(dollars in thousands)

	2003	2002
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 7,314,804	$ 6,108,777
Less: Spending authority from offsetting collections and recoveries	1,602,733	1,082,739
Obligations net of offsetting collections and recoveries	5,712,071	5,026,038
Less: Offsetting receipts	19,952	21,284
Net obligations	5,692,119	5,004,754
Other Resources		
Transfers in/out without reimbursement (Note 23)	19,952	21,284
Imputed financing from costs absorbed by others	13,404	11,069
Other (+/-)	31	309
Net other resources used to finance activities	33,387	32,662
Total resources used to finance activities	5,725,506	5,037,416
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	27,524	(8,264)
Resources that fund expenses recognized in prior periods	28,550	(23,975)
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(1,172,627)	(739,915)
Other	452,052	399,705
Resources that finance the acquisition of assets	339,325	15,773
Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)	10,028	(5,623)
Total resources used to finance items not part of the net cost of operations	(315,148)	(362,299)
Total resources used to finance the net cost of operations	6,040,654	5,399,715
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	1,411	1,255
Upward/Downward reestimates of credit subsidy (+/-)	71,949	366,685
Increase in exchange revenue receivable from the public	(5,065)	(1,893)
Other (+/-)	1,555	(22,996)
Total components of Net Cost of Operations that will require or generate resources in future periods	69,850	343,051
Components not Requiring or Generating Resources:		
Depreciation and Amortization	13,007	10,716
Other (+/-)	(29,306)	48,591
Total components of Net Cost of Operations that will not require or generate resources	(16,299)	59,307
Total components of Net Cost of Operations that will not require or generate resources in the current period	53,551	402,358
Net Cost of Operations	$ 6,094,205	$ 5,802,073

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidated Statement of Custodial Activity
For the Years Ended September 30, 2003 and September 30, 2002

(dollars in thousands)

	2003	2002
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 106,427	$ 405,321
Fines and Penalties	51,682	38,957
Credit Reform Interest	392,486	416,251
Telecommunications Development Fund Interest	28	258
Total Cash Collections	550,623	860,787
Accrual Adjustments		
Spectrum Auctions	(1,420)	(192,756)
Fines and Penalties	291	(4,865)
TDA Interest	(6)	4
Total Accrual Adjustments	(1,135)	(197,617)
Total Custodial Revenue	549,488	663,170
Disposition of Collections:		
Transferred to Others:		
Recipient A: U.S. Treasury	(444,168)	(456,366)
Recipient B: FCC Financing Account - Credit Reform (Recoveries)	(468,419)	(258,163)
(Increase)/Decrease in Amounts Yet to be Transferred	461,610	156,957
Refunds and Other Payments	(1,683)	(16,552)
Retained by the Reporting Entity	(96,828)	(89,046)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements

Notes to the Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Federal Communications Commission (FCC or Commission) is an independent United States government agency, directly 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 FCC is composed of three reporting components. The primary component consists of FCC headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the North American Numbering Plan (NANP). The USF component reports the results of the four Universal Service support mechanisms (established pursuant to Section 254 of the Communications Act of 1934, as amended) and the results of the Telecommunications Relay Service Fund (TRS) (established by the Americans with Disabilities Act of 1990, Title IV). The NANP component reports the results of billing and collection activities that are conducted to support the NANP (47 C.F.R. §52.16, 52.17, 52.32, 52.33).

The inclusion of the NANP program in FY 2002 represented a change in the reporting entity from FY 2001. To establish opening entity balances the beginning FY 2002 Net Position was adjusted by $10,781.

Basis of Accounting and Presentation

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

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

Fund Balance with Treasury

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

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and Other Monetary Assets

Cash and Other Monetary Assets represents cash on deposit at several commercial banks and highly liquid securities with an original maturity of three months or less. The commercial accounts are in the form of mutual funds and money market funds that can easily be drawn against. In the case of USF and NANP, 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 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.

Cash on deposit typically exceeds federally insured limits.

Investments

Investments are reported net of any unamortized premium or discount. All of USF's investments are in marketable debt securities.

Accounts Receivable, Net

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

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.

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 worth less than $25,000,

Note 1 - Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

but collectively are worth more than $250,000, are also capitalized using the same equipment categories and useful lives as capital acquisitions. PP&E are depreciated on a straight-line basis over the estimated useful life of the item. The useful lives used are: 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 personal property and equipment seized from illegal telecommunication operations. The property is considered prohibited and held pending an outcome of court proceedings. Forfeited property consists of seized property turned over to the FCC to be destroyed or disposed of through a surplus process. The values assigned to the seized and forfeited property are determined by FCC engineers and are based on current market values for comparable property.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are recognized when they are incurred regardless of whether they are covered by available budgetary resources. 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.

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. In addition the FCC collects multi-year regulatory fees for 5 and 10 year periods that are recorded as deferred revenue and amortized over the period of the fee.

Debt to the U.S. Treasury

This account represents amounts due to the Bureau of Public Debt, Treasury, to support the spectrum auction loans program. Borrowings are determined based on the FCC's subsidy estimate and re-estimate in accordance with the FCRA of 1990, as amended, and guidance issued by OMB. Interest on debt is calculated and remitted to the Treasury annually at the end of the fiscal year. Interest payments made by the FCC on borrowings from the Bureau of Public Debt are recorded in a receipt account maintained by the FCC.

Note 1 - Summary of Significant Accounting Policies (continued)

Retirement Plans and Other Benefits

Federal Employee benefits consist of the actuarial portions of future benefits earned by Federal employees. 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, it does not recognize any liability on the Consolidated Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. The FCC does, however, recognize and allocate the imputed costs on the Statement of Net Costs and recognizes imputed financing related to these costs on the Statement of Changes in Net Position.

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.

Revenue and Other Financing Sources

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 its mission. 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 competition, enforcement, consumer information, and spectrum management activities. These fees were established by Congressional authority, and, consistent with OMB Circular

Note 1 - Summary of Significant Accounting Policies (continued)

Revenues and Other Financing Sources (continued)

No. A-25 revised, *User Charges*, the FCC did not determine the full costs associated with its regulatory activity in the establishment of regulatory fees. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the FCC's annual appropriation at the close of each fiscal year. The regulatory fee level for FY 2003 was $269,000 of which $265,746 was collected. The regulatory fee level of $218,757 established for FY 2002 was achieved.

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of SFFAS 7, *Accounting for Revenue and Other Financing Sources*, the FCC accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when the final payment date is established by a "prepared to grant" public notice. The value of available spectrum is determined by the market place at the time of auction. The FCC recognized revenue of $105,007 in FY 2003 and $212,565 in FY 2002.

Offsetting Collections (Exchange) – One of the 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 $96,806 in FY 2003 and $77,918 in FY 2002.

Application Fees (Exchange) - Congress authorized the FCC (Section 8, 47 U.S.C.) to impose and collect application processing fees and directed the FCC to prescribe charges for certain types of application processing or authorization services it provides to communications entities over which the FCC has jurisdiction. The FCC amends its Schedule of Application Fees, 47 C.F.R. Section 1.1102 et seq., to adjust the fees for processing applications and other filings. Section 8(b) of the Communications Act, as amended, requires that the Commission review and adjust its application fees every two years after October 1, 1991. The adjusted or increased fees reflect the net change in the Consumer Price Index for all Urban Consumers (CPI-U), calculated over a specific period of time. Application fees are deposited in the U.S. Treasury and are not available for the FCC to use. Application fees totaled $19,952 in FY 2003 and $21,284 in FY 2002.

Reimbursable Work Agreements (Exchange) – The FCC recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. Each reimbursable work agreement specifies the dollar value of the agreement and is based on estimated resources needed to perform the specified services, whether it is personnel services to include base pay, overtime and benefits, or travel and per diem. The FCC executed agreements totaling $1,412 in FY 2003 and $1,233 in FY 2002.

Note 1 - Summary of Significant Accounting Policies (continued)

Revenues and Other Financing Sources (continued)

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 FY 2003 was $270,987 less regulatory fee collections of $265,746, resulting in a net appropriation of $5,241. The appropriation for FY 2002 was $245,042 less regulatory fee collections of $218,757, resulting in a net appropriation of $26,285.

Subsidy Estimates and Reestimates (Financing Source) – The FCC receives permanent-indefinite authority for its credit reform program account in accordance with the FCRA of 1990, as amended, to fund its subsidy estimates and reestimates, unless otherwise prescribed by OMB. This account records the subsidy costs associated with the direct loans obligated in 1992 and beyond (including modifications of direct loans or loan guarantees that resulted from obligations or commitments in any year), as well as administrative expenses of the loan program. The FCC received an appropriation of $531,052 in FY 2003 and $142,386 in FY 2002 for these purposes. These appropriations are available until used.

USF (Nonexchange) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service. These contributions represent appropriated dedicated and earmarked receipts and are accounted for as a budgetary financing source. Contributions and related interest totaled $5,795,335 in FY 2003 and $5,518,572 in FY 2002.

Transactions with Related Parties

In the course of its operations, the FCC has relationships and conducts financial transactions with numerous Federal agencies. The most prominent of these relationships is with the U.S. Treasury. In addition to its Federal relationships, the FCC has a direct relationship with the administrators of those funds which are included as components under the overall FCC entity.

Net Position

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

Reclassifications

Certain FY 2002 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

(dollars in thousands unless otherwise stated)

Note 2 - Non-entity Assets

	2003	2002
Intragovernmental:		
Fund Balance with Treasury	$ 265,540	$ 1,190,419
Accounts Receivable, Net	10,451	3,041
Total Intragovernmental	275,991	1,193,460
Cash and Other Monetary Assets	743	35,402
Accounts Receivable, Net	21,970	20,330
Total Non-entity Assets	298,704	1,249,192
Total Entity Assets	7,982,607	8,531,638
Total Assets	$ 8,281,311	$ 9,780,830

Non-entity Fund Balance with Treasury primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for $262,862 in FY 2003 and $1,185,363 in FY 2002. Non-entity Cash and Other Monetary Assets consist of upfront deposits made by potential spectrum auction bidders. Receivables that are considered non-entity are those for regulatory fees, application fees, fines and forfeitures, spectrum auction receivables, and International Telecommunications Settlement (ITS) fees.

Note 3 - Fund Balance with Treasury

Fund Balances:

	2003	2002
Appropriated Funds	$ 98,428	73,177
Revolving Funds	46,030	21,569
Deposit Funds	265,540	1,190,419
Total Fund Balance	$ 409,998	$ 1,285,165

Status of Fund Balances:

	2003	2002
Unobligated Balance		
Available	$ 50,807	$ 30,620
Unavailable	275,322	1,198,764
Obligated Balance not yet disbursed	83,869	55,781
Total	$ 409,998	$ 1,285,165

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

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

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

(dollars in thousands unless otherwise stated)

Note 4 – Cash and Other Monetary Assets

	2003	2002
Cash	$ 2,411,121	$ 2,344,941
Accrued Interest	1,791	3,057
Total	$ 2,412,912	$ 2,347,998

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

In FY 2002, Cash and Other Monetary Assets includes $35,402 in upfront deposits and related accrued interest being held for various spectrum auctions. There was also $2,300,949 in USF contributions and related accrued interest held for distribution and $11,647 in NANP deposits and related accrued interest.

Accrued interest is composed of interest income earned by the FCC, USF, and NANP, but not received on demand deposits as of the end of the period.

Note 5 - Investments

FY 2003	Cost	Amortization Method	Unamortized (Premium) Discount	Investments, Net	Market Value Disclosure
Marketable Securities	$ 324,313	EI	$ (2,110)	$ 322,203	$ 324,520
Accrued Interest	2,076	NA	-	-	2,076
Total	$ 326,389				$ 326,596
FY 2002					
Marketable Securities	$ 326,701	EI	$ 812	$ 327,513	$ 327,111
Accrued Interest	1,493	NA	-	-	1,493
Total	$ 328,194				$ 328,604

EI – Effective Interest Method
NA – Not Applicable

Investment balances represent USF funds that have been invested in low risk marketable securities. All investments are held to maturity. Therefore, no adjustments have been made to present market values.

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Note 6 - Accounts Receivable, Net

	Intragovernmental	Public	Total
FY 2003			
Gross Accounts Receivable	$ 10,451	$ 1,261,981	$ 1,272,432
Allowance for Doubtful Accounts	(-)	(613,291)	(613,291)
Net Accounts Receivable	$ 10,451	$ 648,690	$ 659,141
Interest on Delinquent AR	$ -	$ 32,076	$ 32,076
FY2002			
Gross Accounts Receivable	$ 3,041	$ 1,120,322	$ 1,123,363
Allowance for Doubtful Accounts	(-)	(604,963)	(604,963)
Net Accounts Receivable	$ 3,041	$ 515,359	$ 518,400
Interest on Delinquent AR	$ -	$ 18,335	$ 18,335

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

A 100% allowance is also made for all Notice of Apparent Liabilities (NAL) receivables which represent preliminary notifications of a fine that are subject to final determination. These receivables are included on the Treasury Report on Receivables at the request of Treasury, however the collectibility of these receivables is not determined until a final judgment is issued.

	FY 2003			FY 2002		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 809,491	$ (183,319)	$ 626,172	$ 693,447	$ (199,258)	$ 494,189
Regulatory Fees	25,241	(9,331)	15,910	19,987	(9,134)	10,853
Spectrum Auction	377,707	(377,597)	110	349,882	(348,352)	1,530
Fines and Forfeitures	42,294	(40,417)	1,877	47,342	(46,723)	619
Other	17,699	(2,627)	15,072	12,705	(1,496)	11,209
Total	$1,272,432	$ (613,291)	$ 659,141	$1,123,363	$ (604,963)	$ 518,400

Note 7 – Loans Receivable, Net

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), Multichannel 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. The return or repossession of auctioned licenses, which may have previously been associated with installment payment plans, does not directly or immediately affect the amount of the outstanding debt recorded in the agency's financial records. Outstanding debt adjustments are subject to the completion of a separate process.

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

The most recent subsidy reestimate was completed in September 2003 for actual performance data through June 30, 2003 and estimated data from July through September, 2003. The result of this reestimate was a net upward adjustment of $380,055 that is reported in the FY 2003 financial statements.

In the most recent reestimate the FCC continued to project a 100% recovery rate on all loans made to NextWave. These loans stem from approximately $4.7 billion in original winning bids and represent a majority of the current portfolio. The actual recovery against these loans is likely to have a significant impact on the susbsidy when it can be determined.

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 estimates and re-estimates. 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 may 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 7 – Loans Receivable, Net (continued)

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

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

Loan Program	Loans Receivable, Gross	Interest Receivable	Other Receivables	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Spectrum Auctions:					
FY 2003 Bal.	$ 5,112,431	$ 280,681	$ 3,716	$ (968,023)	$ 4,428,805
FY 2002 Bal.	$ 5,293,072	$ 292,747	$ 2,506	$ (329,067)	$ 5,259,258

Interest accrued on bankrupt and defaulted loans totaled $278,081 in FY03 and $272,580 in FY02.

Total Amount of Direct Loans Disbursed

Loan Program	FY 2003	FY 2002
Spectrum Auctions	$ -	$ 1,369

No new loans have been issued for FY 2003.

Subsidy Expense for Direct Loans by Program and Component

1. Subsidy Expense for New Direct Loans Disbursed:

Loan Program	Interest Differential	Defaults	Fees	Other	Total
FY 2003	$ -	$ -	$ -	$ -	$ -
FY 2002	$ (129)	$ 339	$ -	$ -	$ 210

(dollars in thousands unless otherwise stated)

Note 7 – Loans Receivable, Net (continued)

Subsidy Expense for Direct Loans by Program and Component

2. Direct Loan Modifications and Reestimates:

Loan Program	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Spectrum Auctions				
FY 2003 (Net)	$ -	$ -	$ 380,055	$ 380,055
FY 2002 (Net)	$ -	$ -	$ 346,421	$ 346,421

3. Total Direct Loan Subsidy Expense:

FY 2003	$ 380,055
FY 2002	$ 346,631

Subsidy Rates for Direct Loans by Program and Component

Loan Program	Interest Differential	Defaults	Fees	Other	Total
FY 2003	0 %	0 %	0%	0%	0%
FY 2002	(9.40)%	24.77%	0%	0%	15.37%

Schedule for Reconciling Subsidy Cost Allowance Balances

	2003	2002
Beginning Balance of the Subsidy Cost Allowance	$ 329,067	$ (84,773)
Subsidy expense for direct loans disbursed:		
During the reporting years by component:		
Interest rate differential costs	-	(129)
Default costs (net of recoveries)	-	339
Adjustments:		
Recoveries	468,419	258,163
Loans written off	(50,134)	-
Subsidy allowance amortization	(160,520)	(191,170)
Other	1,136	216
Ending balance before reestimates	587,968	(17,354)
Subsidy reestimates:		
Technical/default reestimate	380,055	346,421
Ending balance of the subsidy cost allowance	$ 968,023	$ 329,067

(dollars in thousands unless otherwise stated)

Note 7 – Loans Receivable, Net (continued)

Administrative Expense	2003	2002
Spectrum Auctions	$ 8,624	$ 9,770

Note 8 – Seized and Forfeited Property

FCC seizes property from illegally operated radio and other communication operations. The property is comprised of radio frequency, audio, and other communications equipment. Forfeited property consists of seized property legally turned over to the FCC. Seized and forfeited property cannot be sold due to legal restrictions and is not recognized for financial purposes however, the number and value of seized and forfeited property is reported below. The property is tracked using the lot number assigned to it at the time of seizure.

	FY 2003		FY 2002	
Seized Property	No. of Lots	Dollar Value	No. of Lots	Dollar Value
Beginning Balance	24	$ 53	18	$ 37
Seized	18	36	11	33
Forfeited	(5)	(16)	(5)	(17)
Ending Balance	37	$ 73	24	$ 53

	FY 2003		FY 2002	
Forfeited Property	No. of Lots	Dollar Value	No. of Lots	Dollar Value
Beginning Balance	7	$ 6	18	$ 19
Forfeited	5	16	5	17
Disposed	(4)	(16)	(16)	(30)
Ending Balance	8	$ 6	7	$ 6

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Note 9 - General Property, Plant and Equipment, Net

	FY 2003			FY 2002			
Major Classes	Cost	Accum. Deprec	Net Book Value	Cost	Accum Deprec	Net Book Value	Estimated Useful Life
Land	$ 1,443	$ -	$ 1,443	$ 1,304	$ -	$ 1,304	N/A
Buildings	4,537	3,876	661	4,091	3,867	224	40
Non-Comp. Equip	10,821	7,080	3,741	9,795	6,375	3,420	7
Computer Equip.	19,820	11,317	8,503	18,019	9,484	8,535	5
Bulk Purchases	23,567	17,317	6,250	23,567	14,039	9,528	5-7
Vehicle Systems	3,196	2,701	495	2,913	2,287	626	5
Broadcast Station	3,348	3,348	0	4,096	4,077	19	7
Patent	800	302	498	800	255	545	17
ADP Software	31,901	20,305	11,596	18,557	15,293	3,264	3
Software In Process	10,879	-	10,879	14,348	-	14,348	N/A
Total	$110,312	$ 66,246	$ 44,066	$ 97,490	$ 55,677	$ 41,813	

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

Note 10 - Liabilities Not Covered by Budgetary Resources

	2003	2002
Intragovernmental:		
Other:		
FECA Liability	$ 426	$ 438
Other:		
Unfunded Leave	16,023	14,612
Total liabilities not covered by budgetary resources	16,449	15,050
Total liabilities covered by budgetary resources	5,913,567	7,638,637
Total Liabilities	$ 5,930,016	$ 7,653,687

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

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

(dollars in thousands unless otherwise stated)

Note 11 - Debt

	2002 Beginning Balance	Net Borrowing	2002 Ending Balance	Net Borrowing	2003 Ending Balance
Agency Debt:					
Intragovernmental	$ -	$ -	$ -	$ -	$ -
Held by the Public	125,274	(10,849)	114,425	(58,577)	55,848
Total Agency Debt	125,274	(10,849)	114,425	(58,577)	55,848
Other Debt:					
Debt to the Treasury	6,109,604	(338,689)	5,770,915	(705,477)	5,065,438
Held by the Public	-	-	-	-	-
Total Agency Debt	6,109,604	(338,689)	5,770,915	(705,477)	5,065,438
Total Debt	6,234,878	(349,538)	5,885,340	(764,054)	5,121,286

Classification of Debt:

	2003	2002
Debt to the Treasury	$ 5,065,438	$ 5,770,915
Debt held by the Public	55,848	114,425
Total Debt	$ 5,121,286	$ 5,885,340

Agency debt represents the remaining liability on an initial voucher of $125,274 that was issued in settlement of a successful litigation against the FCC. The voucher can be used to satisfy existing spectrum auction loans and as credit for payment against spectrum auction winning bid amounts in future auctions. The voucher expires in June of FY 2004.

The FCC also 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.

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Note 12 - Other Liabilities

FY 2003	Non-Current	Current	Total
Intra-governmental			
Custodial Liability	$ -	$ 230,052	$ 230,052
Other:			
Accrued Payroll	-	878	878
FECA Liability	-	426	426
Other	-	-	-
Total Other	-	1,304	1,304
Total Intragovernmental	$ -	$ 231,356	$ 231,356
Deferred Revenue	$ 15,911	$ 60,912	$ 76,823
Other:			
Accrued Payroll	-	4,813	4,813
Unfunded Leave	-	16,023	16,023
Deposit/Unapplied Liability	-	9,867	9,867
Prepaid Contributions	-	46,187	46,187
Other	-	18,464	18,464
Total Other	-	95,354	95,354
Total Other Public	$ 15,911	$ 156,266	$ 172,177

FY 2002	Non-Current	Current	Total
Intra-governmental			
Custodial Liability	$ -	$ 691,662	$ 691,662
Other:			
Accrued Payroll	-	656	656
FECA Liability	-	438	438
Other	-	(20)	(20)
Total Other	-	1,074	1,074
Total Intragovernmental	$ -	$ 692,736	$ 692,736
Deferred Revenue	$ 16,806	$ 534,644	$ 551,450
Other:			
Accrued Payroll	-	4,223	4,223
Unfunded Leave	-	14,612	14,612
Deposit/Unapplied Liability	-	19,987	19,987
Prepaid Contributions	-	64,870	64,870
Other	-	10,298	10,298
Total Other	-	113,990	113,990
Total Other Public	$ 16,806	$ 648,634	$ 665,440

(dollars in thousands unless otherwise stated)

Note 12 - Other Liabilities (continued)

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

Deposit/Unapplied Liability represents upfront deposits made by auction bidders as well as funds received that are being held until proper application is determined.

Prepaid Contributions includes USF contributions paid in advance that will be drawn down during the course of the year and contribution overpayments that may be refunded.

Note 13 - Leases

Operating Leases

The FCC has operating leases for rental of office space and office equipment. The copier lease arrangements are renewable annually with five possible annual renewal periods. As a Federal Agency, the FCC is not liable for any lease terms beyond one year. The FCC anticipates that space levels consistent with FY 2003 will be required for the next five years and has estimated space and copier payments consistent with that need in the schedule below. No estimates beyond five years have been provided because of the cancelable nature of the agreements.

Anticipated lease requirements are as follows:

Fiscal Year	Building	Copier	Total
2004	$ 38,195	$ 1,419	$ 39,614
2005	38,493	1,419	39,912
2006	38,795	1,419	40,214
2007	39,104	1,419	40,523
2008	39,423	1,419	40,842
Total Future Lease Payments	$ 194,010	$ 7,095	$201,105

Note 14 - Commitments and Contingencies

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

(dollars in thousands unless otherwise stated)

Note 14 - Commitments and Contingencies (continued)

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

The FCC has examined its obligations related to canceled FY 1998 authority and believes that it has no outstanding commitments that will require future resources.

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

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

Note 16 - Prior Period Adjustments

During FY 2002, 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

	FY 2003	**FY 2002**
Entries to recognize property and related Depreciation for items purchased in prior years, but not identified until the current year	$ -	$ 859
FY 1997 Cancelled Authority Adjustments	-	(2,591)
PY Revenue Adjustments	-	605
Conversion of Multi –Year Regulatory fees to a deferred revenue basis vs. year of receipt basis	-	(20,884)
Other	-	(62)
Total Prior Period Adjustments	$ -	$ (22,073)

(dollars in thousands unless otherwise stated)

Note 17 - Apportionment Categories of Obligations Incurred

	FY 2003		FY 2002	
	Budgetary	Non-Budgetary	Budgetary	Non-Budgetary
Direct				
Category A	$ 370,522	$ -	$ 326,907	$ -
Category B	555,202	417,776	149,285	420,777
Exempt from Apportionment	5,969,620	-	5,210,436	-
Total Direct	$ 6,895,344	$ 417,776	$ 5,686,628	$ 420,777
Reimbursable				
Category A	$ 1,684	$ -	$ 1,372	$ -
Category B	-	-	-	-
Exempt from Apportionment	-	-	-	-
Total Reimbursable	$ 1,684	$ -	$ 1,372	$ -

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

Note 18 - Available Borrowing/Contract Authority, End of Period

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

With the exception of a monetary credit that resulted as a judgment against the FCC, all borrowings are from the Bureau of Public Debt. In accordance with applicable standards, all funds are borrowed at the beginning of the period. Therefore, the FCC does not carry over any unused borrowing authority. Repayments of borrowings are made in accordance with the terms of the Federal Credit Reform Act of 1990, as amended. Financing sources for repayment are collections from borrowers or subsidy. The FCC had no available borrowing authority at September 30, 2003.

Note 19 - Terms of Borrowing Authority Used

The FCC has three types of Financing Sources. These are loan payments made by the Public, interest from U.S. Treasury, and subsidy expense received from Treasury. The Federal Credit Reform Act of 1990 stipulates that the rate used for subsidy calculations, borrowings, and interest on uninvested funds must be for a maturity comparable to the maturity of the direct loans being made to the Public. The majority of FCC's direct loans have a maturity of ten years.

Note 20 – Legal Arrangements Affecting Use of Unobligated Balances

Regulatory Fees received in excess of the legislative level contained in the FCC's annual appropriation language may be carried forward by the FCC for use in the next fiscal year, subject to the notification of the Congressional appropriations subcommittees. All other no year unobligated balances are available without restriction at the start of the next fiscal year following apportionment by the OMB.

Note 21 - Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government

The schedule below presents differences for FY 2002. The *Budget of the United States Government* with actual numbers for FY 2003 has not been published. Pursuant to 31USC 1105, the *Budget of the United States Government* will be released the first Monday in February, and will be available at the following website: http:/www.whitehouse.gov/omb.

Budgetary Resources ($ in millions):	Financial Statements	President's Budget	Difference	
Budget Authority	$ 5,716	$ 5,644	$ (72)	A
Unobligated Balances – Beginning of Period	1,936	2,328	392	B
Spending Authority from Offsetting Collections	1,076	1,075	(1)	C
Adjustments	(352)	(354)	(2)	D
Total Budgetary Resources	8,376	8,693	317	
Status of Budgetary Resources ($ in millions):				
Obligations Incurred	$ 6,109	$ 6,403	$ 294	E
Unobligated Balances – Available	2,228	2,292	64	F
Unobligated Balances – Not Available	39	-	(39)	G
Total, Status of Budgetary Resources	8,376	8,695	319	
Outlays ($ in millions):				
Obligations Incurred	$ 6,109	$ 6,403	$ 294	E
Less: Spending Authority from Offsetting Collections and Adjustments	(1,083)	(1,081)	2	C
Obligated Balance, net – Beginning of Period	407	64	(343)	H
Less: Obligated Balance, net – End of Period	(453)	(453)		
Total Outlays	4,980	4,933	(47)	I
Less: Offsetting Receipts	21	23	2	C
Net Outlays	4,959	4,910	(49)	

A – Represents an adjustment made to the financial statements to reflect the netting of receipts due from and expenses due to USF contributors who also provide services.

Note 21 - Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government (continued)

B – Financial statement adjustments resulting in a net $400 million decrease to USF available authority were made after the submission of the budget. This difference is offset by the exclusion of $ 8 million in expired unobligated balances at the beginning of the fiscal year from the budget.

C - Rounding

D - The Budget is not required to include prior year recoveries, $(7) million, or cancelled authority, $5 million, both of which are included in the financial statements.

E – Financial statement adjustments resulting in a net $296 million decrease to USF obligations incurred were made after the submission of the budget. The remaining $ (2) million represents upward adjustments of prior year unexpended obligations that were included in the financial statements, but are not included in the budget.

F – Represents an adjustment made to the financial statements to increase expenditures in FY 2002 by the amount of outstanding checks of $35 which were not previously included as budgetary expenditures and a reclassification for comparability in FY 2003 of $29. The correction for the $35 difference took place on SF-133 in FY 2003 and will result in a similar difference for FY 2003 in the opposite direction.

G – The Budget is not required to include the expired unobligated balance.

H – The FCC calculated ending USF obligations for financial reporting purposes based on Accounts Payable. This represents an adjustment that was not included in the budget submission.

I – Represents the net difference of adjustments A, F, and G.

Note 22 - Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

There are two amounts shown in Note 10 as not covered by budgetary resources: FECA Liability and Unfunded Leave. The changes in both of these balances between FY 2002 and FY 2003 are reflected as part of Components Requiring or Generating Resources in Future Periods on the Statement of Financing. The increase in unfunded leave of $1,411 is included in the Resources that Fund Expenses Recognized in Prior Periods line on the Statement of Financing, and the decrease in FECA Liability of $12 is included as part of the Other line of Components Requiring Resources in Future Periods line item.

(dollars in thousands unless otherwise stated)

Note 23 - Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

The FCC collects applications fees to cover the cost of processing license applications. The FCC reports the revenue associated with these fees as a revenue source on its Statement of Net Cost. However, the fees are not retained by the FCC. To reflect the transfer of these fees back to the Treasury, the FCC recognizes a transfer out on the Statement of Changes in Net Position. The amount of $19,952 included in the Offsetting Receipts line on the Statement of Financing is the total transferred for application fees.

Note 24 - 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." 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 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 2003	FY 2002
Assets		
Cash and Other Monetary Asset (Note 4)	$ 2,400,128	$ 2,300,949
Investments (Note 5)	326,389	328,194
Accounts Receivable, Net (Note 6)	626,172	494,189
Liabilities & Net Position		
Accounts Payable	$ 396,664	$ 397,180
Unearned Revenue	13,400	-
Other Liabilities	46,168	64,561
Net Position	2,896,457	2,661,591
Revenues & Expenses		
Contributions	$ 5,765,603	$ 5,466,034
Interest Revenue	29,732	52,538
Provider Related Expenses	$ 5,501,751	$ 5,238,739
Fund Administration Expenses	58,718	42,865

Note 24 - Dedicated Collections (continued)

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 25 – Change in Accounting Guidance

The FCC is a pilot agency in the implementation of the amended *Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 3400, Accounting for and Reporting on Cash and Investments Held Outside of the U.S. Treasury*. Under the new guidance, purchases of investments are recorded as disbursements/obligations incurred and receipts are recorded as an offset to disbursements/obligations incurred.

The change impacts the comparability of the following line items on the combined statement of budgetary resources:

- Obligations Incurred- Direct
- Unobligated Balance – Exempt from Apportionment, and
- Disbursements

The change also impacts the comparability of the line Resources that Finance the Acquisition of Assets on the consolidated statement of financing. None of the other principal statements are affected by this change.

In order to implement the new guidance, effective October 1, 2002 for pilot agencies, a one time entry was made to record the FY 2002 Investments balance of $328,194 as FY 2003 disbursements/obligations incurred. In FY 2002, the activity related to investment purchases was reported as part of the Unobligated Balance – Exempt from Apportionment.

III. REQUIRED SUPPLEMENTARY INFORMATION

FEDERAL COMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
As of September 30, 2003
(dollars in thousands)

Intra-Governmental Assets

Partner Code	Trading Partner	Fund Balance	Accounts Receivable	Loans Receivable	Investments	Other	Total
20	Department of Treasury	$ 409,998	$ -	$ -	$ -	$ -	**$ 409,998**
17	Department of Navy		367				**367**
19	Department of State		3				**3**
21	Department of Army		2,684				**2,684**
47	General Services Administration		2				**2**
57	Department of Air Force		889				**889**
68	Environment Protection Agency		-				**-**
69	Department of Transportation		-				**-**
70	Department of Homeland Security		408				**408**
80	National Aeronautics & Space Administration		1				**1**
89	Department of Energy		-				**-**
95	Architectural & Transportation Barriers		5				**5**
	Compliance Board						**-**
97	Department of Defense		6,092				**6,092**
99	General Fund/Other	-	-	-	-	-	-
	Total	**$ 409,998**	**$ 10,451**	**$ -**	**$ -**	**$ -**	**$ 420,449**

Intra-Governmental Liabilities

Partner Code	Trading Partner	Accounts Payable	Borrowings From Treasury (BPD)	Other Liabilities	Total
	Funded				
20	Department of Treasury	$ -	$ 5,065,438	$ -	$ 5,065,438
16	**Department of Labor**				
	Workman's Compensation	-	-	426	426
	Unemployment	10	-	-	10
		10	-	426	436
24	**Office of Personnel Management**				
	Health	-	-	225	225
	Life	-	-	436	436
	Retirement	-	-	7	7
	Total Office of Personnel Management	**-**	**-**	668	668
	Accrued Liabilities				
4	Government Printing Office	-	-	-	-
13	Department of Commerce	-	-	-	-
14	Department of Interior	-	-	-	-
19	Department of State & ICASS	-	-	-	-
21	Department of Army	-	-	-	-
24	Office of Personal Management	-	-	-	-
47	General Services Administration	-	-	-	-
	Total Accrued Liabilities	**-**	**-**	**-**	-
20	Department of Treasury	-	-	-	-
99	General Fund/Other	-	-	230,262	230,262
	Total	**$ 10**	**$ 5,065,438**	**$ 231,356**	**$ 5,296,804**

ICASS - International Cooperative Administrative Support Services

FEDERAL COMMUNICATIONS COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2003
(dollars in thousands)

Intragovernmental Earned Revenues and Related Costs

Partner Code	Trading Partner	Earned Revenue	Expenses
03	Library of Congress	$ -	$ 8
04	Government Printing Office	-	1,374
10	Judiciary System		1
12	Department of Agriculture & NFC	2	232
13	Department of Commerce	-	82
14	Department of Interior	-	2,687
15	Department Of Justice	154	185
16	**Department of Labor**		
	Workman's Compensation		151
	Unemployment		27
	Other		90
17	Department of Navy		(1)
18	United States Postal Service	-	846
19	U. S. Department of State		27
20	**Department of Treasury**		
	Bureau of Public Debt	-	392,486
	Financial Management Service	39,718	-
	Other	197	27
24	**Office of Personnel Management**		
	Health	-	8,116
	Life	-	273
	Retirement	-	15,969
	Other	-	1,822
	Financing Source/Imputed Costs	-	13,404
36	Department of Veteran Affairs	-	-
45	Equal Employment Opportunity	-	4
47	General Services Administration	-	41,245
57	Department of Air Force	5	-
69	Dept. of Transportation - USCG	-	7
70	Homeland Security Admin.	165	52
75	Health and Human Services -FOH	-	52
95	Board for International Broadcasting	221	-
97	Department of Defense	607	30
99	U S Treasury General Fund/Payroll Taxes	-	8,532
	Total	41,069	487,728

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

99	General Fund	(549,466)	

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

Federal Communications Commission
Required Supplementary Information
As of September 30, 2003
(dollars in thousands)

DEFERRED MAINTENANCE

To determine the original estimated cost of deferred maintenance in FY 2000 the FCC contracted with professional building inspectors to inspect its real property holdings including buildings and structures. The inspection reports were, in most cases, comprehensive reviews of the buildings and ground conditions and included all items that required attention, whether critical to the functionality of the building or more of a cosmetic nature. Each year the FCC updates the previous year report for items completed and newly identified projects. The estimated deferred maintenance for FY 2003 is $1,520.

Federal Communications Commission
Consolidating Balance Sheet
As of September 30, 2003
(dollars in thousands)

	FCC	USF	NANP	ELIMINATIONS	Consolidated
ASSETS					
Intragovernmental					
Fund Balance with Treasury (Note 3)	$ 409,998	$ -	$ -	$ -	$ 409,998
Accounts Receivable (Note 6)	10,451	-	-	-	10,451
Total Intragovernmental	420,449	-	-	-	420,449
Cash and Other Monetary Assets (Note 4)	828	2,400,128	11,956	-	2,412,912
Investments (Note 5)	-	326,389	-	-	326,389
Accounts Receivable, net (Note 6)	52,404	626,172	504	(30,390)	648,690
Loans Receivable, net (Note 7)	4,428,805	-	-	-	4,428,805
General Property, Plant, and Equipment, net (Note 9)	44,066	-	-	-	44,066
Other	-	-	-	-	-
Total Assets	4,946,552	3,352,689	12,460	(30,390)	8,281,311
LIABILITIES					
Intragovernmental					
Accounts Payable	$ 10	$ -	$ -	$ -	$ 10
Debt (Note 11)	5,065,438	-	-	-	5,065,438
Other (Note 12)					
Custodial	230,052	-	-	-	230,052
Other	1,304	-	-	-	1,304
Total Other	231,356	-	-	-	231,356
Total Intragovernmental	5,296,804	-	-	-	5,296,804
Accounts Payable	7,547	396,664	976	-	405,187
Debt Held by the Public (Note 11)	55,848		-	-	55,848
Other (Note 12)					
Deferred Revenue	59,190	13,400	4,233	-	76,823
Other	79,557	46,168	19	(30,390)	95,354
Total Other	138,747	59,568	4,252	(30,390)	172,177
Total Liabilities	$ 5,498,946	$ 456,232	$ 5,228	$ (30,390)	$ 5,930,016
Commitments and Contingencies (Note 14)					
NET POSITION					
Unexpended Appropriations	$ 43,055	$ -	$ -	$ -	$ 43,055
Cumulative Results of Operations	(595,449)	2,896,457	7,232	-	2,308,240
Total Net Position	(552,394)	2,896,457	7,232	-	2,351,295
Total Liabilities and Net Position	$ 4,946,552	$ 3,352,689	$ 12,460	$ (30,390)	$ 8,281,311

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidating Statement of Net Cost
For the Year Ended September 30, 2003
(dollars in thousands)

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

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidating Statement of Net Cost
For the Year Ended September 30, 2003
(dollars in thousands)

	FCC	USF	NANP	Consolidated
Universal Service:				
Intragovernmental gross costs	$ 653	$ -	$ -	$ 653
Less: Intragovernmental earned revenue	(9)	-	-	(9)
Intragovernmental net costs	644	-	-	644
Gross costs with the public	1,748	5,560,469	-	5,562,217
Less: Earned revenues from the public	(2,559)	-	-	(2,559)
Net costs with the public	(811)	5,560,469	-	5,559,658
Total net cost	(167)	5,560,469	-	5,560,302
Numbering:				
Gross costs with the public	-	-	9,871	9,871
Less: Earned revenues from the public	-	-	(4,997)	(4,997)
Net costs with the public	-	-	4,874	4,874
Total net cost	-	-	4,874	4,874
Credit Reform:				
Intragovernmental gross costs	$ 392,486	$ -	$ -	$ 392,486
Less: Intragovernmental earned revenue	(39,718)	-	-	(39,718)
Intragovernmental net costs	352,768	-	-	352,768
Gross costs with the public	612,704	-	-	612,704
Less: Earned revenues from the public	(412,601)	-	-	(412,601)
Net costs with the public	200,103	-	-	200,103
Total net cost	552,871	-	-	552,871
Total Net Program Costs	$ 515,306	$ 5,560,469	$ 4,874	$ 6,080,649
Cost not Assigned to Programs:				
Depreciation	$ 13,007	$ -	$ -	$ 13,007
Telecommunications Development Fund	22	-	-	22
Other Expenses	549	-	-	549
				-
Less: Earned Revenues not Attributed to Programs:				
Telecommunications Development Fund	$ (22)	$ -	$ -	$ (22)
Net Cost of Operations (Note 15)	$ 528,862	$ 5,560,469	$ 4,874	$ 6,094,205

Page 2 of 2

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, 2003
(dollars in thousands)

	FCC		USF		NANP		Consolidated	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (568,712)	$ 22,158	$ 2,661,591	$ -	$ 12,106	$ -	$ 2,104,985	$ 22,158
Prior period adjustments (Note 16)	-	-	-	-	-	-	-	-
New Reporting Entity					-		-	-
Cancelled Appropriations	-	-	-	-	-	-	-	-
Beginning balances, as adjusted	(568,712)	22,158	2,661,591	-	12,106	-	2,104,985	22,158
Budgetary Financing Sources:								
Appropriations received	-	802,038	-	-	-	-	-	802,038
Appropriations transferred in/out (+/-)	-	-	-	-	-	-	-	-
Other adjustments (recission, etc) (+/-)	-	(266,737)	-	-	-	-	-	(266,737)
Appropriations used	514,404	(514,404)	-	-	-	-	514,404	(514,404)
Nonexchange revenue	-	-	-	-	-	-	-	-
Donations and forfeitures of cash and cash equivalents	-	-	-	-	-	-	-	-
Transfers-in/out without reimbursement (+/-)	(5,700)	-	-	-	-	-	(5,700)	-
Universal Service Fund Nonexchange Revenue	-	-	5,795,335	-	-	-	5,795,335	-
Other Financing Sources:								
Donations and forfeitures of property	-	-	-	-	-	-	-	-
Transfers-in/out without reimbursement (+/-)	(19,952)	-	-	-	-	-	(19,952)	-
Imputed financing from costs absorbed by others	13,404	-	-	-	-	-	13,404	-
Other (+/-)	(31)	-	-	-	-	-	(31)	-
Total Financing Sources	502,125	20,897	5,795,335	-	-	-	6,297,460	20,897
Less: Net Cost of Operations	528,862		5,560,469		4,874		6,094,205	
Ending Balances	$ (595,449)	$ 43,055	$ 2,896,457	$ -	$ 7,232	$ -	$ 2,308,240	$ 43,055

The accompanying notes are an integral part of these statements

Federal Communications Commission
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2003
(dollars in thousands)

	FCC		USF		Combined	
	Budgetary	Non Budgetary Credit Program Financing Account	Budgetary	Non Budgetary Credit Program Financing Account	Budgetary	Non Budgetary Credit Program Financing Account
Budgetary Resources:						
Budget Authority						
Appropriations Received	$ 536,292	$ -	$ 5,743,226	$ -	$ 6,279,518	$ -
Borrowing Authority	-	25,346	-	-	-	25,346
Unobligated Balance:						
Beginning of Period	17,514	21,569	2,228,067	-	2,245,581	21,569
Spending Authority from Offsetting Collections:						
Earned						
Collected	447,725	1,147,715	-	-	447,725	1,147,715
Receivable from Federal Sources	-	-	-	-	-	-
Changed Unfilled Customer Orders						
Advance Received	-	-	-	-	-	-
Without Advance from Federal Sources	(472)	-	-	-	(472)	-
Anticipated for rest of year, without advances	-	-	-	-	-	-
Subtotal	1,001,059	1,194,630	7,971,293	-	8,972,352	1,194,630
Recoveries of Prior Year Obligations	7,765	-	-	-	7,765	-
Permanently not available	(66,860)	(730,823)	-	-	(66,860)	(730,823)
Total Budgetary Resources	$ 941,964	$ 463,807	$ 7,971,293	$ -	$ 8,913,257	$ 463,807
Status of Budgetary Resources:						
Obligations Incurred (Note 17):						
Direct	$ 925,724	$ 417,776	$ 5,969,620	$ -	$ 6,895,344	$ 417,776
Reimbursable	1,684	-	-	-	1,684	-
Subtotal	927,408	417,776	5,969,620	-	6,897,028	417,776
Unobligated Balance:						
Apportioned	-	-	-	-	-	-
Other Available	-	-	2,001,673	-	2,001,673	-
Unobligated Balance not Available	14,556	46,031	-	-	14,556	46,031
Total Status of Budgetary Resources	$ 941,964	$ 463,807	$ 7,971,293	$ -	$ 8,913,257	$ 463,807
Relationship of Obligations to Outlays:						
Obligated Balance, net, Beginning of Period	$ 55,651	$ -	$ 397,180	$ -	$ 452,831	$ -
Obligated Balance, net, End of Period:						
Accounts Receivable	405	-	-	-	405	-
Unfilled Customer Orders from Federal Sources	(60)	-	-	-	(60)	-
Undelivered Orders	70,646	-	-	-	70,646	-
Accounts Payable	13,222	-	396,664	-	409,886	-
Outlays:						
Disbursements	891,553	417,776	5,970,136	-	6,861,689	417,776
Collections	(447,725)	(1,147,715)	-	-	(447,725)	(1,147,715)
Subtotal	443,828	(729,939)	5,970,136	-	6,413,964	(729,939)
Less: Offsetting Receipts	19,952	-	-	-	19,952	-
Net Outlays	423,876	(729,939)	5,970,136	-	6,394,012	(729,939)

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidating Statement of Financing
For the Year Ended September 30, 2003
(dollars in thousands)

	FCC	USF	NANP	Consolidated
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations incurred	$ 1,345,184	$ 5,969,620	$ -	$ 7,314,804
Less: Spending authority from offsetting collections and recoveries	1,602,733	-	-	1,602,733
Obligations net of offsetting collections and recoveries	(257,549)	5,969,620	-	5,712,071
Less: Offsetting receipts	19,952	-	-	19,952
Net obligations	(277,501)	5,969,620	-	5,692,119
Other Resources				
Transfers in/out without reimbursement (Note 23)	19,952	-	-	19,952
Imputed financing from costs absorbed by others	13,404	-	-	13,404
Other (+/-)	31	-	-	31
Net other resources used to finance activities	33,387	-	-	33,387
Total resources used to finance activities	(244,114)	5,969,620	-	5,725,506
Resources Used to Finance Items not Part of the Net Cost of Operations				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	27,524	-	-	27,524
Resources that fund expenses recognized in prior periods	28,550	-	-	28,550
Budgetary offsetting collections and receipts that do not affect net cost of operations				
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(1,172,627)	-	-	(1,172,627)
Other	452,052	-	-	452,052
Resources that finance the acquisition of assets	15,012	324,313	-	339,325
Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)	(58,577)	68,605	-	10,028
Total resources used to finance items not part of the net cost of operations	(708,066)	392,918	-	(315,148)
Total resources used to finance the net cost of operations	463,952	5,576,702	-	6,040,654
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Periods:				
Increase in annual leave liability	1,411	-	-	1,411
Upward/Downward reestimates of credit subsidy (+/-)	71,949	-	-	71,949
Increase in exchange revenue receivable from the public	(5,065)	-	-	(5,065)
Other (+/-)	1,555	-	-	1,555
Total components of Net Cost of Operations that will require or generate resources in future periods	69,850	-	-	69,850
Components not Requiring or Generating Resources:				
Depreciation and Amortization	13,007	-	-	13,007
Other (+/-)	(17,947)	(16,233)	4,874	(29,306)
Total components of Net Cost of Operations that will not require or generate resources	(4,940)	(16,233)	4,874	(16,299)
Total components of Net Cost of Operations that will not require or generate resources in the current period	64,910	(16,233)	4,874	53,551
Net Cost of Operations	$ 528,862	$ 5,560,469	$ 4,874	$ 6,094,205

The accompanying notes are an integral part of these statements

Federal Communications Commission
Required Supplementary Information
For the Years Ended September 30, 2003 and September 30, 2002
(dollars in thousands)

STATEMENT OF BUDGETARY RESOURCES

The Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Federal Agency Financial Statements* requires additional disclosure of an entity's budgetary information by major budgetary account if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. The major budget accounts include the FCC and the Universal Service Fund. Reflected in the chart below are the major accounts of the FCC that are aggregated and presented in the September 30, 2003 and September 30, 2002 Combined Statement of Budgetary Resources.

FY2003	**S&E**	**Credit Reform**	**Auctions**	**USF**	**Total**
Budgetary Resources:					
Budget authority	$ 5,241	$ 556,397	$ -	$ 5,743,226	$ 6,304,864
Unobligated balances - beginning of period	8,350	24,462	6,271	2,228,067	2,267,150
Spending authority from offsetting collections	325,266	1,172,895	96,807	-	1,594,968
Adjustments	(59,257)	(730,789)	128	-	(789,918)
Total budgetary resources	$ 279,600	$ 1,022,965	$ 103,206	$ 7,971,293	$ 9,377,064
Status of Budgetary Resources:					
Obligations incurred	$ 275,149	$ 972,977	$ 97,058	$ 5,969,620	$ 7,314,804
Unobligated balances - available	-	-	-	2,001,673	2,001,673
Unobligated balances - not available	4,451	49,988	6,148	-	60,587
Total, status of budgetary resources	$ 279,600	$ 1,022,965	$ 103,206	$ 7,971,293	$ 9,377,064
Relationship of Obligations to Outlays:					
Obligated balance, net, beginning of period	$ 31,487	$ 2,919	$ 21,245	$ 397,180	$ 452,831
Obligated balance transferred, net	-	-	-	-	-
Obligated balance, net, end of period	35,579	17,888	30,746	396,664	480,877
Outlays:					
Disbursements	265,723	957,974	85,632	5,970,136	7,279,465
Collections	(325,738)	(1,172,895)	(96,807)	-	(1,595,440)
Subtotal	(60,015)	(214,921)	(11,175)	5,970,136	5,684,025
Less: Offsetting Receipts	19,952	-	-	-	19,952
Net Outlays	$ (79,967)	$ (214,921)	$ (11,175)	$ 5,970,136	$ 5,664,073

Federal Communications Commission
Required Supplementary Information
For the Years Ended September 30, 2003 and September 30, 2002
(dollars in thousands)

FY 2002	**S&E**	**Credit Reform**	**Auctions**	**USF**	**Total**
Budgetary Resources:					
Budget authority	$ 26,285	$ 146,842	$ -	$ 5,543,236	$ 5,716,363
Unobligated balances - beginning of period	12,452	18,413	9,361	1,895,267	1,935,493
Spending authority from offsetting collections	231,948	765,916	77,918	-	1,075,782
Adjustments	(12,616)	(343,131)	4,036		(351,711)
Total budgetary resources	$ 258,069	$ 588,040	$ 91,315	$ 7,438,503	$ 8,375,927
Status of Budgetary Resources:					
Obligations incurred	$ 249,720	$ 563,578	$ 85,043	$ 5,210,436	$ 6,108,777
Unobligated balances - available	-	-	-	2,228,067	2,228,067
Unobligated balances - not available	8,349	24,462	6,272	-	39,083
Total, status of budgetary resources	$ 258,069	$ 588,040	$ 91,315	$ 7,438,503	$ 8,375,927
Relationship of Obligations to Outlays:					
Obligated balance, net, beginning of period	$ 41,719	$ 2,700	$ 19,351	$ 343,627	$ 407,397
Obligated balance transferred, net	-	-	-	-	-
Obligated balance, net, end of period	31,487	2,919	21,245	397,180	452,831
Outlays:					
Disbursements	257,035	563,345	79,113	5,156,883	6,056,376
Collections	(231,941)	(765,916)	(77,917)	-	(1,075,774)
Subtotal	25,094	(202,571)	1,196	5,156,883	4,980,602
Less: Offsetting Receipts	21,284	-	-	-	21,284
Net Outlays	$ 3,810	$ (202,571)	$ 1,196	$ 5,156,883	$ 4,959,318

IV. OTHER ACCOMPANYING INFORMATION

IV. Other Accompanying Information

FY 2003 Performance Measures

With the implementation of the revised FY 2003-2008 Strategic Plan, FY 2003 performance measures in the FY 2003 Annual Performance Plan were closed against the five activities. To be consistent with performance results that will be reported separately in the FY 2003 Annual Program Performance Report in February 2004, this report utilizes performance measures that are consistent with the FY 2003 output activities and outcome indicators in the FY 2004 Annual Performance Plan. The FY 2003 output activities and outcome indicators are based on the six new long-term goals established by the FY 2003-2008 Strategic Plan. However, the five activities listed on the Statement of Net Cost are the same as those used for the budget and the existing cost accounting system.

The FCC has established six general goals in its FY 2003 - FY 2008 Strategic Plan. These goals are:

1. BROADBAND: Establish regulatory policies that promote competition, innovation, and investment in broadband services and facilities while monitoring progress toward the deployment of broadband services in the United States and abroad. (47 U.S.C. §157 and note.)
2. COMPETITION: Support the Nation's economy by ensuring there is a comprehensive and sound framework for communications services. Such a framework should foster innovation and offer consumers meaningful choice in services. Such a pro-competitive framework should be promoted domestically and overseas. (47 U.S.C. §§251, 271, 253, 254, and 309(j).)
3. SPECTRUM: Encourage the highest and best use of spectrum domestically and internationally in order to encourage the growth and rapid deployment of innovative and efficient communications technologies and services. (47 U.S.C. §§301 and 303(g).)
4. MEDIA: Revise media regulations so that media ownership rules promote competition and diversity in a comprehensive, legally sustainable manner and facilitate the mandated migration to digital modes of delivery. (47 U.S.C. §§336 and 307(b); Telecommunications Act of 1996 §202(h).)
5. HOMELAND SECURITY: Provide leadership in evaluating and strengthening the Nation's communications infrastructure, in ensuring rapid restoration of that infrastructure in the event of disruption, and in ensuring that essential public health and safety personnel have effective communications services available to them in emergency situations. (47 U.S. C. §§151, 606, and 337.)
6. MODERNIZE THE FCC: Emphasize performance and results through excellent management. Develop and retain independent mission-critical expertise and align the FCC with dynamic and converging communications markets. (47 U.S.C. §155(a).)

For each of these six general goals, the FCC has established one or more performance goals – for a total of eleven performance goals:

BROADBAND:	1) Broaden the deployment of broadband technologies across the United States and globally.
COMPETITION:	2) Ensure American consumers can choose among multiple reliable and affordable communications services.
	3) Ensure that all American consumers retain reliable wireless/wireline phone service, and multichannel video service.
	4) Create and maintain a two-way dialogue with regulators around the globe in order to foster the creation of pro-competitive global markets.
	5) Create and maintain a two-way dialogue with American consumers so that they are informed about their rights and responsibilities in the competitive communications marketplace.
SPECTRUM:	6) Ensure that the Nation's spectrum is used efficiently and effectively.
	7) Advocate U.S. spectrum interests in the international arena.
MEDIA:	8) Develop a sound analytic foundation for media ownership rules.
	9) Facilitate the Congressionally mandated transition to digital television and further the transition to digital radio.
HOMELAND SECURITY:	10) Promote the reliability, security, and survivability of the communications infrastructure.
MODERNIZE THE FCC:	11) Become a more responsive, efficient, and effective agency capable of facing the technological and economic opportunities of the new millennium.

As described in the FY 2004 Annual Performance Plan, the FCC has developed output activities and outcome indicators to measure progress toward the Commission's long-term general goals. Figures 9 and 10 on the following pages illustrate the FY 2003 output activities, and a series of outcome indicators, respectively, which serve as markers of success in achieving the general goals.

The FCC, through its regulatory activities, influences numerous economic and social outcomes. However, since consumer choice, technological innovation, economic conditions, and international negotiations can all have greater effect on outcomes than FCC's regulatory activities, the FCC's approach to connecting its goals to outcomes measures those factors within the FCC's control – noted as output indicators. The FCC will measure and provide data on the output indicators (within the FCC's control) and discuss the relationship between actual performance on these output indicators and the economic and social outcomes listed as outcome indicators in the FY 2003 Annual Program Performance Report.

Figure 9
FY 2003 Output Activities

1. **Broadband**
   - Complete specified rulemakings that influence the deployment and adoption of broadband technologies.
   - Develop a statutory definition of and analytical framework for broadband services across multiple platforms.
   - Initiate study of power line communications in the provision of broadband services to the home.
   - Collect and publish baseline data on the deployment of broadband services, particularly to rural America.
2. **Competition**

   Affordable Choice
   - Conduct review and make recommendations to improve the USF contribution methodology.
   - Enforce regulations that encourage reliable, affordable provision of multichannel video programming services by multiple providers.

   Reliable Service
   - Conduct quarterly reviews of carrier compliance with Section 214 (continuity of service) requirements.

   Two-way Dialogues
   - Complete review of settlements accounting rules to promote lower international calling rates for U.S. consumers.
   - Initiate and maintain two-way dialogue with regulators around the globe on broadband and other emerging technologies.
3. **Spectrum**

   Effective Use
   - Complete study to determine measures to facilitate deployment of cognitive radio.
   - Increase the number of new spectrum use licenses (prompt assignment).
   - Initiate procedures to allocate underutilized spectrum and promote the use of unlicensed services.

   International Interests
   - Negotiate and enforce satellite and other coordination treaties with affected countries.
   - Advance U.S. positions on spectrum use at the 2003 World Radiocommunications Conference.
4. **Media**

   Media Ownership
   - Complete selected studies that support development of appropriate media rules for current media marketplace.
   - Issue Third Biennial Review Report of Broadcast Ownership Rules.

   Digital TV/Radio
   - Create and enforce regulations to advance the digital transition and implement public education efforts.
   - Develop statistical data for tracking consumer/industry investment and deployment of digital programming and equipment.
5. **Homeland Security**
   - Complete the deliverables required by the Network Reliability and Interoperability Council.
   - Complete work of the National Coordination Committee, a federal advisory committee established to facilitate implementation of wireless public safety interoperability.
   - Issue regulations facilitating the implementation of wireless public safety interoperability.
   - Increase coordination with the National Communications System on implementation of wireless priority access service (WPAS).
6. **Modernize the FCC**

   Efficient Processes
   - Initiate analysis and design of an integrated licensing interface portal and Help Desk.
   - Initiate policy and rulemaking system (document/knowledge management and workflow) pilot for selected auctions proceedings.
   - Bureau/Office efficiency initiatives reported in the Quarterly Performance & Results Review (QPRR).

   Expert Staff
   - Develop plan to ensure agency has appropriate engineering, legal, and economic expertise.
   - Formalize Engineer-in-Training (EIT) Program and establish a mentoring program.
   - Expand competency-based career development program for key groups.

   Results-based Management
   - SES performance plans and awards are linked to the FCC's Strategic Plan goals and measures.
   - Develop plan for implementation of performance-based budgeting.

Figure 10
FY 2003 Outcome Indicators

1. **Broadband**
   - Increasing percentage of households with access to broadband services.
   - Increasing access to broadband services across multiple platforms: DSL, cable modem, satellite, et al.
2. **Competition**
   - Increasing percentage of households with access to competing providers for multichannel video programming and information services.
   - Increasing number of consumers and businesses that have reliable wireless and wireline phone service (continuity of service).
   - Decreasing price for residential and business domestic (local/interstate) wireless and wireline services.
   - Decreasing price for international calls.
3. **Spectrum**
   - Increasing number of approvals for enhanced telecommunications equipment.
   - Increasing deployment of new services making use of underutilized or unlicensed spectrum.
   - U.S. positions on spectrum effectively advanced in international negotiations and enforcement of treaties (number of U.S. positions partially or fully adopted).
4. **Media**
   - Significant progress in the transition to digital television and radio.
   - Increasing investment by consumers in digital equipment.
   - Increasing deployment by industry in digital programming, equipment, and infrastructure.
5. **Homeland Security**
   - Increasing deployment of E-911.
   - Increasing deployment of WPAS.
   - Increasing Telecommunications Service Priority (TSP) participation.
   - Increasing reporting of service outages across multiple platforms.
   - Increasing amounts of spectrum available for public safety communications.
6. **Modernize the FCC**
   - Decreasing the cost of maintaining agency licensing systems while increasing customer satisfaction with the licensing services provided.
   - Reducing the average time required to complete rulemakings (knowledge management).
   - Increasing efficiency in the processing of workload (measured by and reported in the Quarterly Performance & Results Review (QPRR)).
   - Employing appropriate number of attorneys, engineers and economists.
   - All FCC employees participating in appropriate career development activities.
   - Increasing rate of agency achievement of strategic objectives.

Figure 11 below describes the processes/strategies, skills, and resources that support of the five budget activities.

Figure 11
Processes, Strategies, Skills, and Resources that Support Each Budget Activity[30]

	Enforcement	Competition	Licensing	Spectrum	Consumer Information
Processes and Strategies	Carry out strong enforcement of market opening requirements. Carry out strong and effective enforcement in harmful interference and public safety situations. Enforce interconnection and other competition-related regulations. Vigorously enforce continuation of service requirements. Ensure our data collection and accounting rules are tailored to allow us to fulfill our oversight responsibilities.	Clarify regulatory classification and access obligations. Eliminate unnecessary regulatory barriers. Gather data, study, and understand domestic and global communications markets. Develop coherent cross-media ownership policies and translate those policies into new ownership models. Encourage universal service, consistent with competition. Increase digital broadband competition from multiple technology platforms. Continually review FCC rules for balance and appropriateness.	Refine licensing assignment processes. Establish proper technical framework for the digital transition to progress. Seek innovative ways, in collaboration with industry, to facilitate digital transition. Evaluate impact of FCC rules and practices on markets and consumers so that those rules that serve as barriers to innovation may be eliminated. More credibly review license transfers to ensure they are in the public interest.	Study and understand U.S. spectrum use and market conditions. Participate in national/international dialogues. Promote flexible technology development. Get existing entities to recommend spectral efficiencies. Work closely with governmental and private entities to ensure network interoperability, protection, reliability, and redundancy. Facilitate the deployment of life-saving E911 technologies. Establish balanced policies for wireless priority access.	Educate American consumers about broadband and its applications. Educate American consumers about spectrum management issues, especially interference. Educate American consumers about media regulation and related issues, such as DTV and digital radio conversion. Increase governmental and non-governmental awareness of emergency remediation procedures, such as the Telecommunications Service Priority (TSP) system.
Resources	Enforcement experts, auditors, attorneys, engineers, economists, analysts. Enforcement fleet. Monitoring and testing equipment.	Economists, attorneys, engineers, analysts. Hardware and software for assessing today's markets and forecasting future conditions.	Attorneys, economists, engineers, analysts. Hardware and software for a universal licensing system.	Public safety experts, state and local first-responder experts, international negotiation experts, engineers, attorneys. Enclosed test facility. Monitoring and test equipment. Back-up emergency equipment.	Consumer advocates, state and local government experts, attorneys, analysts. Publications, displays, presentation software and hardware.

[30] FCC's FY 2004 Budget Estimates to Congress, Annual Performance Plan, pages 29-31.

Figure 11 (continued)
Processes, Strategies, Skills, and Resources that Support Each Budget Activity

	Enforcement	Competition	Licensing	Spectrum	Consumer Information
Skills	Respond quickly in emergency situations. Foresee and plan for the unexpected.	Study and understand market conditions. Conduct innovative rulemakings, execute economically sound decisions, and conduct rigorous and effective policy analysis. Encourage the use of best practices among industry and government entities. Review, analyze, and rework regulations. Understand constantly changing technologies. Understand, explain, and encourage competition.	Conduct innovative reengineering to speed up licensing processes. Negotiate technically sound and socially fair prioritized polices, procedures, and agreements. Review and analyze mergers.	Study and understand technologies. Carry out international communication and negotiation. Carry out sound engineering studies on impacts of spectrum sharing. Gain full technical knowledge of the actual impact of various spectrum practices on interference. Understand and anticipate technological developments. Negotiate in international for a for global spectrum allocation.	Facilitate conversations among key groups (state and local governments and industry) to identify best practices. Collaborate and communicate with industry and advisory committees. Gather, analyze, and communicate information with Congress and consumers.

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 to prevent interference and to ensure the safety of life and property;
- measures spurious radio signal emissions in cooperation with the Environmental Protection Agency to monitor public risks associated with radiation;
- coordinates with the U.S. Customs Service concerning the import of electronic devices;
- coordinates with the NTIA to ensure the effective management of the public and private spectrum;
- works closely with the Federal Trade Commission on consumer issues, e.g., unscrupulous practices such as "slamming" and "cramming" practiced by some service providers;
- coordinates with Federal agencies to ensure public safety, public health, and other emergency and defense personnel have effective communications services in the event of a terrorist attack or other national disaster such as wireless priority access. Agencies sharing responsibility include the Homeland Security Office, Network Reliability and Interoperability Council, Media Security and Reliability Council, the Department of Defense, and the Federal Emergency Management Agency among others; and
- coordinates with the DOJ on enforcement Section 271 of the Act, which ensures that a Bell Operating Company continues to comply with market opening requirements after the Commission has approved its application to provide long distance service in its home region.

In addition to coordination efforts with other Federal agencies, the FCC must also seek the input of state and local governments 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.

V. GLOSSARY OF ACRONYMS

3-G	Third generation, advanced wireless services
The 1996 Act	The Telecommunications Act of 1996
The Act	The Communications Act of 1934, as amended
ADA	American's with Disabilities Act
ADSL	Asymmetric digital subscriber lines
AMD-FO	Associate Managing Director – Financial Operations
ARPM	Average revenue per minute
ARPU	Average revenue per unit
AWS	Advanced wireless services
BAS	Broadcast auxiliary service
BEAMS	Budget Execution and Management System
BLS	Bureau of Labor Statistics
CGB	Consumer and Governmental Affairs Bureau
COTS	Commercial off-the-shelf
CPI	Consumer Price Index
CPI-U	Consumer Price Index for all Urban Consumers
CSRS	Civil Service Retirement System
CTIA	Cellular, Telephone, and Internet Association
DOI	U.S. Department of the Interior
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DSL	Digital subscriber lines
DTV	Digital television
EB	Enforcement Bureau
EI	Effective interest method
EIT	Engineer-in-Training
FCC	Federal Communications Commission
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employee Compensation Act
FERS	Federal Employee Retirement System
FFS	Federal Financial System
FMFIA	Federal Managers Financial Integrity Act
FOH	Federal Occupational Health

FTE	Full-time equivalents
FY	Fiscal year
GAAP	Generally accepted accounting principles
GAO	General Accounting Office
GPRA	Government Performance and Results Act of 1993
ICASS	International Cooperative Administrative Support Services
ITS	International Telecommunications Settlement
ITU	International Telecommunication Union
IVDS	Interactive Video and Data Service
JFMIP	Joint Financial Management Improvement Program
Kbps	Kilobits per second
MDS	Multichannel Distribution Service
MOU	Minutes of use
MSS	Mobile Satellite Service
NA	Not applicable
NAL	Notice of Apparent Liability
NANP	North American Numbering Plan
NANPA	North American Numbering Plan Administrator
NBANC	North American Billing and Collection, Inc.
NBC	National Business Center
NECA	National Exchange Carriers Association
NFC	National Finance Center of the U.S. Department of Agriculture
NTIA	National Telecommunications and Information Administration
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMD	Office of the Managing Director
OPM	Office of Personnel Management
OSP	Office of Strategic Planning and Policy Analysis
PCS	Personal Communications Service
PERM	Performance Evaluation and Records Management
PLMR	Private land mobile radio
PLMRS	Private land mobile radio services
PP&E	Property, Plant and Equipment
QPRR	Quarterly Performance and Results Review

RAMIS	Revenue Accounting and Management Information System
Report	Annual Financial Report
SFFAS	Statement of Federal Financial Accounting Standards
SMR	Specialized Mobile Radio
STA	Special Temporary Authority
TDA	Telecommunications Development Account
TDF	Telecommunications Development Fund
Treasury	U.S. Department of the Treasury
TRS	Telecommunications Relay Service (Fund)
TSP	Telecommunications Service Priority
UCC	Uniform Commercial Code
UNE	Unbundled Network Element
UPCS	Unlicensed personal communications service
U.S.	United States
USAC	Universal Service Administrative Company
U.S.C.	United States Code
USCG	United States Coast Guard
WPAS	Wireless priority access service
WTO	World Trade Organization

SECTION VI

STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

SECTION VI 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 2003 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	Complete	In Progress	Planning	No Action
MATERIAL WEAKNESSES					
I. Financial Reporting (Modified Repeat Condition)					
A. Integrated Financial Management Systems (Modified Repeat Condition)					
	1. Focus on meeting RAMIS milestones and ensure that all target dates are met. Document the plan outlining the steps taken (i.e., processes, data stewardship, management information, systems architecture, and internal control) to meet a unified set of financial systems linked together electronically in an efficient and effective manner to provide agency-wide financial system support.		X		
	2. Assess the degree of integration needed in the USF, TRS and NANP financial systems. Develop plans to integrate each of the USF, TRS and NANP financial systems so that they will meet the requirements of OMB Circular No. A-127 and the Federal Financial Management Improvement Act of 1996 (FFMIA).		X		
	3. Implement Federal GAAP accounting, including budgetary accounting, for the USF, TRS and NANP to facilitate compliance with Federal financial reporting requirements.		X		

SECTION VI STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
B. Federal Financial System Setup and Posting Model Definitions (Modified Repeat Condition)					
	4. Continue to update and correct FFS system setup and posting model definitions to comply with the transaction posting models consistent with USSGL guidance and policies for recording and classifying transactions. Ensure changes made to FFS are tested and accepted before they go into live production.		X		
	5. Continue to review all frequently used transaction types and transaction codes to ensure that the accounting entries (budgetary and proprietary) are corrected.		X		
C. Timely Recording and Analysis of Financial Activities (Modified Repeat Condition)					
	6. Record and analyze financial transactions at least once a month or more frequently as appropriate.		X		
D. Supervisory review of the USF, TRS, and NANP Financial Reporting Process (Modified Repeat Condition)					
	7. Conduct a comprehensive review of the reporting entities' accounting policies to ensure their policies are acceptable and in compliance with FCC's policies. In addition, FCC should include appropriate guidelines that will ensure that the reporting entities obtain FCC concurrence for any accounting policy changes.		X		

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
	8. Ensure that the reporting entities' financial information provided by the entities' administrators are reviewed for accuracy, reasonableness, and propriety prior to incorporation in the FCC consolidated financial statements. Improve two-way open communications allowing the entities' administrators to review financial information included in the FCC consolidated financial statements.		X		
	9. Document clearly the legal, financial, and operational boundaries of FCC, USF, TRS, NANP, and entities' administrators. With the assistance of FCC Office of the General Counsel (OGC) and the entities' administrators, FCC management needs to formally define in writing each entity's financial management role and responsibility to avoid confusion and misunderstanding.		X		
	10. Expand and document a formal financial reporting compilation process that adequately addresses the processes and issues for consolidating the USF, TRS and NANP.		X		
II. Cost Accounting (Modified Repeat Condition)					
A. Cost Accounting System (Modified Repeat Finding)					
	11. Ensure that the cost systems to be developed or acquired meet the minimum requirements outlined in the JFMIP system requirements.		X		
	12. Determine outputs for all responsibility segments as required and calculate the cost per unit of each type of output.			X	

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
	13. Document the costing methodologies and processes in a formal policy and procedure manual or handbook. Management should determine the cost objects to define, the costing methodology to use, the type of costs to include for reporting, or decision making purposes (i.e., full cost), and other items of a similar nature.		X		
B. Cost Finding Techniques					
	14. Evaluate the adequacy of the modified cost-finding techniques in accumulating and allocating costs, matching revenue, accounting and generating financial information as they are applied in fiscal year 2003.	X			
	15. Ensure that cost finding techniques are sufficiently documented and supported.	X			
	16. Provide clear, consistent and uniform terminology and definition of each program, especially the USF. Clearly document and outline direct costs that should be charged to each program.	X			
	17. Continue training employees on the proper use of the revised activity codes and emphasize the importance of properly coding their time. 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			
C. Matching Revenues to Costs (Repeat Finding)					
	18. Review the propriety of the costing methodology and the matching of earned revenue against costs (costing methodologies).				X

SECTION VI STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
III. USF Financial Reporting (Modified Repeat Condition)					
A. Accounting and Reporting Controls (Modified Repeat Condition)					
	19. Update an accounting system where dual entry method and budgetary accounting entries, when appropriate, are recorded at the transaction level.		X		
	20. Update accounting policies and procedures to ensure consistent accounting application and consistent definition of transactions.		X		
	21. Establish and perform supervisory reviews to ensure that reports and financial data received from USAC contractors are supported, accurate, reasonable and that transactions are properly and consistently classified and recorded.		X		
B. Controls Over USF Disbursements to "At Risk" Service Providers					
	22. Tighten controls to ensure that immediate communication to appropriate parties is made regarding service providers that are placed in the watch list.		X		
	23. Compare payments to be made against the disbursement watch list prior to releasing the payment, or institute a payment system flagging the service providers in the "do not disburse" list.		X		

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
IV. Auction Related Subsidiary System					
	24. While the spreadsheets are used as the detailed records, periodically and haphazardly select detail auction subsidiary records for testing to determine that the formulas are calculating the correct amounts and the calculated amounts can be supported by the underlying transaction and documentation.		X		
	25. Develop and implement policies and procedures for the use and review of the auction subsidiary spreadsheets. These policies should include, but not limited to: Allowing only limited users to make changes to the files; Requiring changes made by authorized users to be verified and authorized by another person, and; Periodic reconciliation that verifies auction totals is being accurately captured and reported in the worksheets.		X		
	26. Implement control features in the spreadsheet software, such as cell locking, using a data entry form, worksheet and/or password protections, and others.	X			
V. FCC Loan Subsidiary Ledgers (Modified Repeat Finding)					
A. Loan Subsidiary System (Modified Repeat Finding)					
	27. Continue with thorough and regular reviews and analysis of activities included and excluded in the loan models until RAMIS and/or the loan servicing become operational.		X		

SECTION VI STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
	28. Ensure that the loan subsidiary system being tested (RAMIS) and/or the loan servicing system is capable of interfacing with other financial management systems and meets applicable requirements in the *Direct Loan System Requirements* issued by JFMIP.	X			
B. Loan Subsidiary Ledger Non-Financial Information					
	29. Perform a complete review of the accuracy of the non-financial data in the loan subsidiary system to ensure that data converted to RAMIS or to the loan servicer's system is accurate.	X			
C. Re-Auctioned Licenses					
	30. Create a database linked to RAMIS or the future loan subsidiary system to create an audit trail (or record) of licenses with delinquent loans cancelled then re-auctioned, and the proceeds or receivable from the re-auction. While RAMIS is not yet operational, FCC should create and maintain a comprehensive schedule that will provide this information. The comprehensive schedule should be subjected to a quality control review and a reconciliation should be performed on a periodic basis.		X		
VI. Information Technology (IT) (Modified Repeat Condition)					
A. Compliance with OMB Circular No. A-130 Requirement for a Comprehensive Security Plan (Modified Repeat Condition)					
	31. Develop and implement an FCC-wide security plan as prescribed by OMB Circular No. A-130.	X			

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
	32. Conduct current risk assessments for the two FCC general support systems and seven major applications		X		
	33. Develop and implement security plans for FCC's two newly identified major application systems and mission-critical general support systems.	X			
	34. Certify and accredit FCC's major applications and general support system, based on the security plans developed and implemented.		X		
	35. Establish a system to periodically review security controls over FCC's computer systems in accordance with OMB Circular No. A-130, Appendix III.	X			
	36. Enhance audit trail facility utilization and review.		X		
B. Inadequacies and Inconsistencies in the Mainframe and Network Access Request Process (Repeat Condition)					
	37. Address inadequacies and inconsistencies in the mainframe and network access request process.	X			
C. Accelerate Efforts to Develop and Test FCC's Contingency Plans (Repeat Condition)					
	38. Develop and test contingency plans for FCC's major applications, networks, and telecommunications facilities.		X		
	39. Obtain written documentation from FCC's data centers of developed and tested contingency plans and participate in the scheduled tests of the plans.	X			
	40. Develop a comprehensive contingency plan that integrates the individual plans of its data centers, networks, and telecommunications facilities.		X		

SECTION VI STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
REPORTABLE CONDITIONS					
VII. Accounts Receivable and Related Revenues (Modified Repeat Condition)					
A. Regulatory Fees (Modified Repeat Condition)					
	41. Ensure that RAMIS, when fully operational, could generate user reports such as non-payer of regulatory fees.		X		
	42. Develop and implement an agency-wide policy the bureaus and the Financial Operations Center (FOC) should follow when regulatory fee non-payers are identified.		X		
VIII. Auction Revenue Recognition Policy					
	43. Establish and implement accounting procedures that will track the status (issuance of Prepared to Grant Public Notice) of auction licenses as "not granted," "ready to grant," and "granted." This will include tracking the dates when the status of the license changed and reference to supporting documentation such as the Prepared to Grant Public Notice.		X		
IX. Revenue in Proper Accounting Period					
	44. Implement procedures to ensure that revenue transactions are recorded in the proper accounting period. One of these procedures should include the use of the billing documents on all revenue related transactions and properly and timely applying collections to the billing documents.	X			

SECTION VI STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
X. Obligation and Accounts Payable Activities					
A. Accounting for Obligation					
	45. Ensure that existing policies and procedures and internal controls outlined in the FCC manual on accounting for obligations are adequate and that these policies and controls are strictly and consistently implemented.	X			
B. Accounting for Accounts Payable					
	46. Ensure that a liability is recognized for the unpaid amount when goods and services are received and establish proper cut-off procedures to ensure that all liabilities are recorded as of a reporting period.	X			
XI. Payroll Activities (Modified Repeat Condition)					
	47. Perform a periodic reconciliation of all the leave categories from the two systems, NFC and FCC records.		X		
	48. Conduct training of employees to re-emphasize the importance of proper coding and to ensure that timesheets are properly completed and certified by supervisors.	X			
	49. Ensure that payroll documents are filed timely.	X			
XII. Debt Collection Improvement Act Reporting (Modified Repeat Condition)					
	50. Update policies and procedures to incorporate the Department of the Treasury referral requirements for the reporting entities accounts receivables.		X		
	51. Refer eligible delinquent debt, more then 180 days old, to the Department of the Treasury for offset or cross-servicing.		X		

SECTION VI STATUS OF RECOMMENDATIONS FROM PRIOR YEAR FINANCIAL STATEMENT AUDIT

Resolution Classification (X)

CONDITIONS	RECOMMENDATIONS	Complete	In Progress	Planning	No Action
	52. Ensure that FCC has all the reporting entities' supporting documentation for the TROR.	X			
XIII. Compliance with Certain Aspects of the Clinger-Cohen Act of 1996 (Modified Repeat Condition)					
	53. Document and implement a migration strategy for the RAMIS application.	X			
	54. Commit adequate resources to the management of the RAMIS project.	X			
	55. Document a Capital Asset and Business Case to address summary of spending during project stages.	X			
	56. Utilize project management tools (i.e., time, function, budget) to determine milestone dates and measure project performance against these target dates.		X		
	57. Ensure that applications in development (i.e., CORES, E/MTS, COALS, and RAMIS) adhere to FCC's SDLC methodology.	X			
XIV. OMB Circular Nos. A-127 and A-130 Reviews (Repeat Condition)					
	58. Institute a program for conducting periodic reviews in accordance with OMB Circular Nos. A-127 and A-130.	X			
	59. Include the results of OMB Circular Nos. A-127 and A-130 reviews as part of the applicable section in FCC's annual FMFIA report.		X		

SECTION VII

ACRONYMS & ABBREVIATIONS

SECTION VII ACRONYMS & ABBREVIATIONS

BEAMS	Budget Execution and Management System
CFO Act	Chief Financial Officers Act of 1990
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CSP	Computer Security Program
DAS	Disbursement Aggregation System
DCIA	Debt Collection Improvement Act of 1996
DRP	Disaster recovery plan
EDP	Electronic data processing
FCC	Federal Communications Commission
Federal GAAP	Generally accepted accounting principles for Federal entities
FFMIA	Federal Financial Management Improvement Act of 1996
FFS	Federal Financial System
FIPS PUBS	Federal Information Processing Standards Publications
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOC	Financial Operation Center
FPPS	Federal Personnel/Payroll System
FTE	Full-time equivalent
FY	Fiscal year
GAAP	Generally accepted accounting principles
GAO	General Accounting Office
GMRA	Government Management Reform Act of 1994
GSS	General support system
HRM	Human Resource Management
IC Report	Independent Auditor's Report on Internal Control
IT	Information technology
ITC	Information Technology Center
JFMIP	Joint Financial Management Improvement Program
NANP	North American Numbering Plan
NFC	National Finance Center
OIG	Office of Inspector General
OMB	Office of Management and Budget
RAMIS	Revenue Accounting and Management Information System
SFFAS	Statement of Federal Financial Accounting Standards
SM	Spectrum Management
SNC	Statement of Net Cost
TROR	Treasury Report on Receivables
TRS	Telecommunications Relay Services Fund
USAC	Universal Service Administrative Company
USF	Universal Service Fund
USSGL	United States Standard General Ledger
WTB	Wireless Telecommunications Bureau