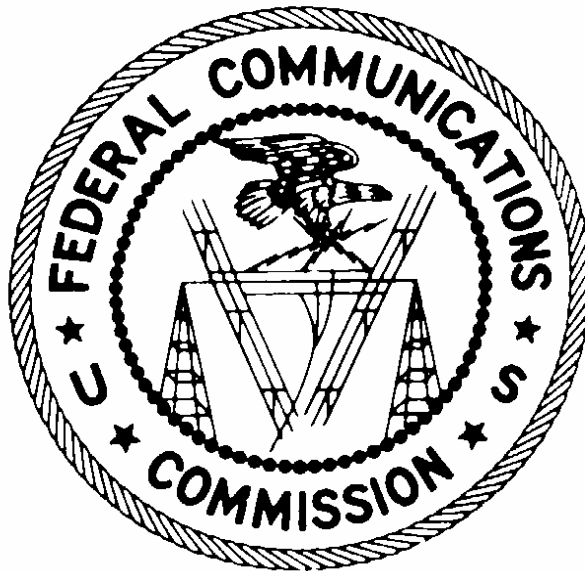


**REPORT ON THE  
FEDERAL COMMUNICATIONS COMMISSION  
FISCAL YEAR 2004  
SPECIAL-PURPOSE FINANCIAL STATEMENTS**

**04-AUD-11-25**

**November 18, 2004**



**Office of Inspector General**

**\*\*\*\*\***

**Federal Communications Commission**

## Camilla Barror

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**From:** Camilla Barror  
**Sent:** Thursday, November 18, 2004 4:20 PM  
**To:** 'Treas (FMS) - 2004 (Financial.reports@fms.treas.gov)'  
**Cc:** Walker Feaster; Steven Rickrode  
**Subject:** FCC Opinion on FY 2004 Closing Package/GFRS

In accordance with Treasury Financial Manual, Vol. 1, Part 2, 4705.55 - *Audit Requirements for the Closing Package*, attached is the Federal Communications Commission Office of Inspector General Independent Auditor's Report on Special-Purpose Financial Statements. This audit, conducted by our IPA contractor, Clifton Gunderson LLP, is in conjunction with general purpose financial statement audit as previously reported to your agency.

If you have any questions or need further information, please contact me or Steve Rickrode (Steve Rickrode, Director, Financial Management Audits (202) 418-0478, [Steven.Rickrode@fcc.gov](mailto:Steven.Rickrode@fcc.gov))

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Federal Communications Commission  
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## Independent Auditor's Report on Special-Purpose Financial Statements

To the Inspector General of the  
Federal Communications Commission

We have audited the accompanying reclassified Balance Sheet as of September 30, 2004 and the related reclassified Statements of Net Cost and Changes in Net Position for the year then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of the Federal Communications Commission (FCC). These special-purpose financial statements are the responsibility of the FCC's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

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

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, as described in Note 1, solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the FCC's financial statements.

FCC management, in its management representation letter to the auditor, could not provide assurance on the accuracy and completeness of the undelivered orders of approximately \$2.9 billion reported in the FR Notes Detail Report, Note 18, Commitments, and we were not able to apply other auditing procedures to satisfy ourselves as to the amount reported in the note.

In our opinion, except for Note 18 which was described above, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the

FCC as of September 30, 2004, and its net costs and changes in net position for the year then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in FCC's financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 1, 2004 on our consideration of the FCC's internal control over financial reporting, and on our tests of the FCC's compliance with certain provisions of laws and regulations. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audit of the special-purpose financial statements, we also considered the FCC's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process 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 over financial reporting that, in our judgment, could adversely affect the FCC's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the special-purpose 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 special-purpose 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.

Our audit disclosed the following reportable conditions in internal control over the financial reporting process for the special-purpose financial statements:

- Four line items from the general purpose Statement of Changes in Net Position were entered as having a normal credit balance when the normal balance should have been a debit balance;
- Existing control procedures did not identify certain immaterial account balances presented on the Reclassified Balance Sheet and Statement of Changes in Net Position were not classified according to the TFM;
- While the FCC has documented the Government-wide Financial Report System (GFRS) reporting process approach and methodology, these were not formalized in agency directives or policy;
- FCC has not created, formalized, documented, or disseminated its policy and procedures for how to handle non-conformances with the TFM proposed and approved by FMS nor its retention timeframes for this information;
- FCC did not adhere to its internally negotiated agreed-upon lock dates for the GFRS;
- Line items from the FCC's Consolidated Statement of Custodial Activity were entered as abnormal balances in the Government-wide Financial Report System resulting in incorrectly reclassified amounts on the Reclassified Statement of Changes in Net Position. These were detected during the audit process and subsequently corrected;
- FCC initially reported \$51.5 million of interest revenue on a Reclassified Statement of Net Cost line that was for the Department of Treasury's use only. The control procedures in place at the time of reclassification did not identify this as an error. This was detected during the audit process and subsequently resolved with the Department of Treasury's approval of the presentation in a different line;
- Control procedures over the preparation of FR note data and other data did not identify the following errors prior to the Chief Financial Officer's initial locking of the system, but were subsequently corrected as part of the audit process:
  - FCC's answers to select questions in the GFRS either did not address the question or no responses were provided in cases where responses should have been provided;
  - Note 03 Accounts Receivable did not provide all of the detail receivable information as required in the TFM;
  - Note 18 Commitments omitted Undelivered Orders totaling \$2.9 billion;
  - The format of the data entered for Note 19 Dedicated Collections was not consistent with the guidelines in the TFM; and
- During the course of our audit, we were informed by FCC management that various reclassifications were processed by the FCC based on verbal guidance received from Treasury. None of the guidance had been confirmed by Treasury in writing until November 17, 2004. Due to the unusual nature of some of the FCC's transactions, we recommend that FCC obtain written confirmation from external regulatory agencies when obtaining consultation about the appropriate treatment or presentation.

We recommend that FCC implement adequate quality control procedures and understanding of the requirements to ensure compliance with the TFM.

Our tests of compliance with the TFM Chapter 4700 requirements disclosed no material instances of noncompliance that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02.

We noted certain immaterial instances of noncompliance that we have reported to management of FCC in a separate letter dated November 18, 2004.

As required by OMB Memorandum No. M-04-22, *Amendments to OMB Bulletin No. 01-02*, we reviewed the status of known but uncorrected material findings and recommendations related to the subject matter below from our Independent Auditor's Report on Internal Control dated November 1, 2004:

- Auction Transactions;
- Oversight of Reporting Components;
- Universal Service Fund Financial Accounting and Reporting Controls;
- Reporting Components' Budgetary Accounting;
- Information Technology; and
- Cost Allocation Logic.

Providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

This report is intended solely for the information and use of FCC, the U.S. Department of the Treasury, the Office of Management and Budget and the U.S. Government Accountability Office in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Henderson LLP*

Calverton, Maryland  
November 18, 2004