FEDERAL COMMUNICATIONS COMMISSION

Fiscal Year 2009
Agency Financial Report

(October 1, 2008 – September 30, 2009)

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Message from the Chairman

I am pleased to present the Federal Communications Commission's (FCC) Financial Report for Fiscal Year (FY) 2009. The Financial Report demonstrates the FCC's strong commitment to maintaining a culture of accountability for the funds it manages. For the fourth consecutive year, the FCC has obtained an unqualified or "clean" audit opinion on its financial statements, and the FCC's new independent auditors, KMPG, did not identify any material weaknesses in the FCC's operations. The independent auditor's opinion addresses more than $450 million in FCC operating expenses and over $8 billion in outlays for the Universal Service Fund and Telecommunications Relay Service Fund. Despite the positive audit opinion, the independent auditor's report does show that work remains to be done here at the FCC to continue to improve the agency's operations so it can deliver on its mission for the American people.

The FCC's mission centers on communications networks and technology, which have the potential to unleash new waves of innovation: increasing opportunity and prosperity, driving American competitiveness and leadership, connecting our country, strengthening our democracy—and transforming lives for the better. The FCC has an important role to play in pursuing these goals on behalf of all Americans.

The FCC took on new and challenging assignments during FY 2009. The historic nation-wide transition to digital television (DTV) saw the FCC coordinating a national effort to ensure Americans were informed and prepared for the DTV transition on June 12. Thanks to the hard working staff of the FCC, to the leadership of then-Acting Chairman Copps, and to funds provided through the American Recovery and Reinvestment Act (Recovery Act), the FCC in coordination with its partner agency, the Department of Commerce, was able to exceed expectations. The creative thinking and collaborative efforts employed by the FCC during the DTV transition demonstrated how the FCC can make a positive difference in the lives of individual Americans.

The Recovery Act also had a significant impact on the FCC's activities in FY 2009 in the area of broadband. Through the Recovery Act, Congress tasked the agency with the development of the country's first ever national broadband plan by February 17, 2010. I believe that broadband is our generation's major infrastructure challenge. Earlier generations faced, and rose to, similar challenges, with railroads, highways, telephones, and electricity – networks that have connected Americans, served as a platform for commerce, and improved the quality of life for all Americans. In developing the broadband plan, the FCC is conducting a data-driven process with unparalleled opportunities for public participation. The FCC has held a series of public workshops and field hearings on a broad range of issues relating to broadband. In addition, the FCC has launched a website – Broadband.Gov – and has deployed other new media tools that have helped open up the public dialogue around the broadband plan to more citizens and new voices from around the country, including rural and inner cities, small businesses, and state and local governments.

In the area of FCC modernization, during FY 2009, the FCC has taken important steps to review and begin to reform key aspects of its responsibilities and operations. The reform agenda for the FCC includes:

- reviewing our public safety readiness and acting on the recommendations that resulted from the readiness review, released publicly on September 8;
- reviewing our systems and processes for data collection, analysis and dissemination;
- improving our licensing, comment and complaint filing systems and modernizing our information infrastructure to ensure the agency functions effectively and efficiently;
- moving our workforce forward by streamlining our operations, greening the agency, and providing leadership development and training;
- improving our institutional processes by better management of workflow and reviewing our rules and policies to reduce backlogs; and
- reviewing our financial operations.

To help facilitate FCC reform, I have been meeting in person with Bureaus and Offices within the FCC to hear their ideas, and I have launched an internal online forum where employees can submit their ideas for improvement and reform. On the site, employees are involved in hundreds of conversations about how to improve the agency. I am also committed to soliciting public feedback and to upgrading our website, which is one of the main ways the FCC interacts with the public. The FCC is focusing on improving navigation, search capabilities, and the accessibility of information on our site. And we will be launching a section of the site – Reboot.FCC.Gov – where citizens can offer their ideas for FCC reform. The goal is to cultivate an inclusive process through which the public can be more involved in the work of the FCC. In furtherance of reaching this goal, the FCC has already engaged in several new online avenues of public interaction via applications such as IdeaScale, Facebook, YouTube, and Twitter, to name a few. Go to www.fcc.gov/connect to find out more about the ways in which the FCC is taking advantage of these tools to better interact with the public.

To ensure that the FCC is data-driven in its decision-making, during FY 2009, I directed the FCC's Office of Strategic Planning and Policy Analysis to conduct a top-to-bottom review of the FCC's systems for data collection, processing, analysis, and dissemination. As the nation's expert agency on communications, the FCC must have access to, and base its decisions on, data that is robust, reliable, and relevant. The review I have ordered will address whether any new data should be collected, whether any existing data reporting requirements should be streamlined or eliminated, and whether existing technological platforms can be modernized to make our use of data more effective and efficient.

As an ancillary to the data review, the FCC is also assessing the database and communications infrastructure of the FCC. An initial review strongly suggests that a significant upgrade is warranted. An upgrade will permit the FCC and its staff to function much more efficiently. Moreover, we are looking at our licensing, comment and complaint filing systems to see whether they can be improved. As part of this process, we have recently updated our Electronic Comment Filing System (ECFS), which allows the public to submit, research, and print comments filed with the agency. The improved ECFS is easier to navigate, has greater search capabilities, and allows filers to learn of new comments matching criteria via RSS feeds, among other enhancements.

Positive steps are already underway to revitalize and retool the FCC, but FCC reform will be a long-term effort. I am committed to institutionalizing change and making the FCC a 21st century agency for the information age – one that fights for consumers and families, and fosters investment and innovation, through fair, participatory, and data-driven processes.

In closing, please note that a more comprehensive report about the FCC's FY 2009 accomplishments will be included in the FCC's FY 2009 Annual Performance Report, which will be released in February 2010 with the FCC's annual budget submission. The Financial Report that follows contains the FCC's FY 2009 financial statements and other management highlights; the information contained therein is reliable and complete.

Julius Genachowski
Chairman
November 16, 2009

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1. Management's Discussion and Analysis

Overview of the FCC

INTRODUCTION

OMB Circular A-136 was revised on June, 10, 2009 to reflect that agencies may choose either to produce a consolidated Performance and Accountability Report or a separate Agency Financial Report (AFR) and an Annual Performance Report (APR) for FY 2009. The Federal Communications Commission (Commission) has chosen to produce the AFR as an alternative to the consolidated Performance and Accountability Report. The Commission will include its FY 2009 APR with its Congressional Budget Justification and will post it on the Commission web site at http://www.fcc.gov/ by February 2, 2010.

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

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

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

ABOUT THE FCC

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

The Commission consists of five commissioners, appointed by the President and confirmed by the Senate for five-year terms. The President designates one of the commissioners to serve as Chairman. Commissioners may not hold a financial interest in any company or entity that has a significant interest in activities regulated by the Commission.

The Chairman and the Commissioners at the end of FY 2009 were the following:

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

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

MISSION

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

ORGANIZATIONAL STRUCTURE

The Commission's Chairman leads the Commission as head of the agency. The Commission is staffed by the agency's bureaus and staff offices.

The Commission has seven operating bureaus and ten offices that implement the Commission's six strategic goals. The bureaus and offices operating during FY 2009 were:

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[1] 47 U.S.C. § 151.
[2] *Id.*

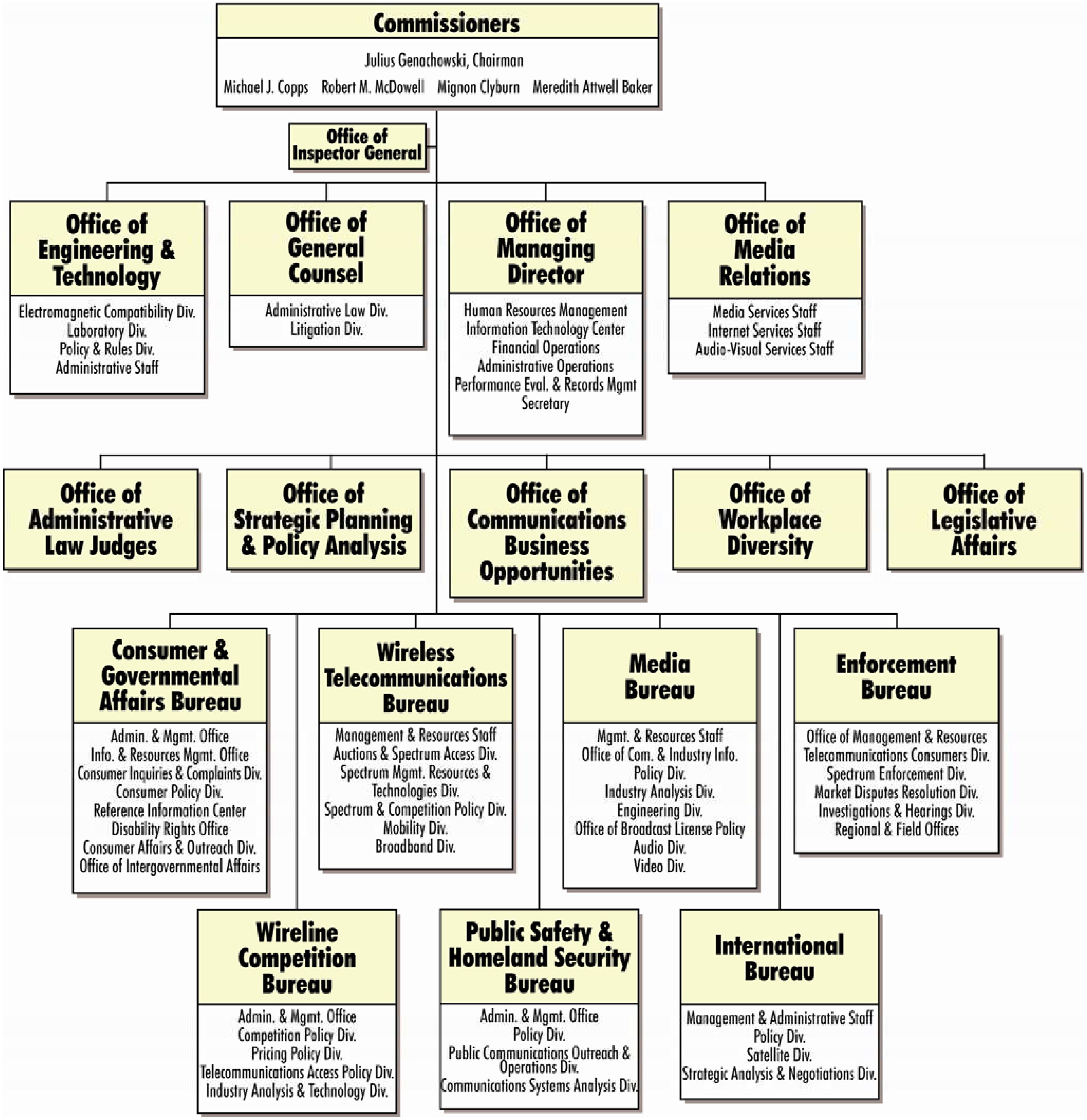
- Consumer & Governmental Affairs Bureau
- Enforcement Bureau
- International Bureau
- Media Bureau
- Public Safety and Homeland Security Bureau
- Wireless Telecommunications Bureau
- Wireline Competition Bureau
- Office of Administrative Law Judges
- Office of Communications Business Opportunities
- Office of Engineering and Technology
- Office of General Counsel
- Office of Inspector General
- Office of Legislative Affairs
- Office of Managing Director
- Office of Media Relations
- Office of Strategic Planning and Policy Analysis
- Office of Workplace Diversity

These bureaus and offices develop and implement regulatory programs, process applications for licenses or other filings, analyze complaints, conduct investigations, and participate in Commission hearings.[3]

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

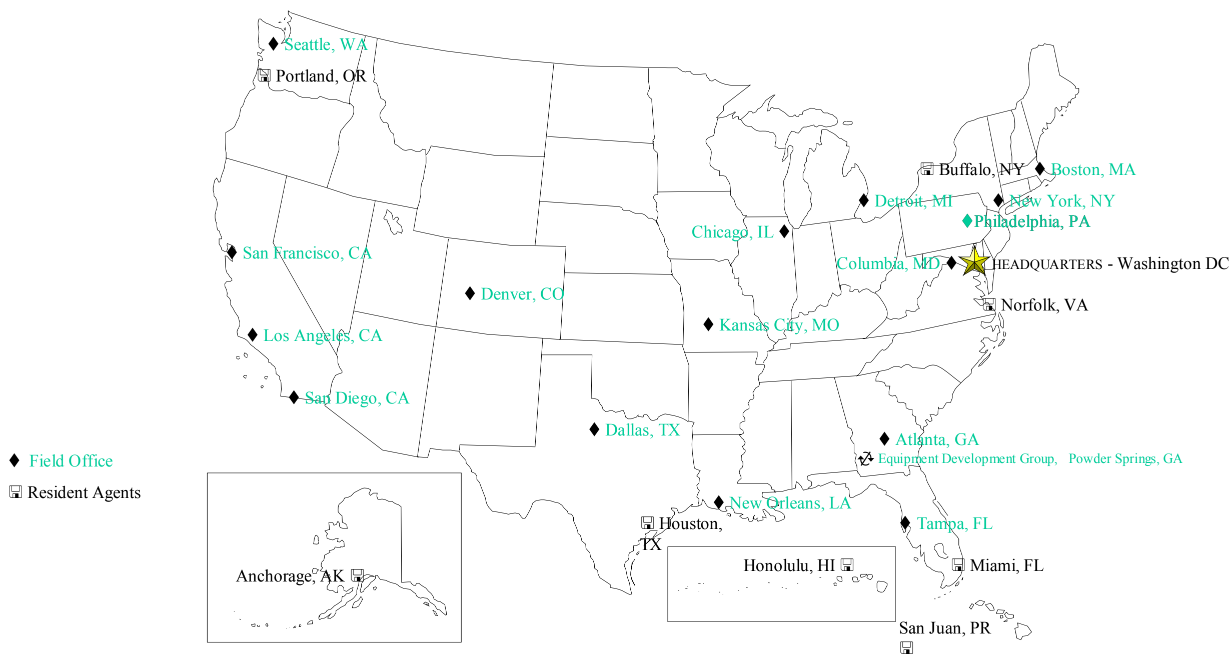
[3] *See* 47 C.F.R. § 0.5 et seq.

ORGANIZATIONAL CHART



MAP OF FIELD OFFICES

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



STRATEGIC GOALS AND OBJECTIVES

Consistent with the objectives of the Act, as amended by the Telecommunications Act of 1996, as well as the 1993 Government Performance and Results Act (GPRA), the Commission has identified six long-term strategic goals in its FY 2009 - FY 2014 Strategic Plan:

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

STRATEGIES & RESOURCES TO ACHIEVE GOALS

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

COMPONENTS OF THE FCC FOR FINANCIAL STATEMENT PURPOSES

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

Universal Service Fund (USF) - The Telecommunications Act of 1996 further amended the Communications Act of 1934 to codify and modify the Commission's longstanding policy of promoting universal telecommunications service throughout the nation. Pursuant to section 254, the Commission established rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed.[4]

For budgetary purposes, the USF comprises five elements that consist of four universal service support mechanisms and the Telecommunications Relay Service (TRS) Fund. The TRS Fund represents a program established under section 225 of the Act. This statute provides for a mechanism to support relay services necessary for telecommunications access by speech or hearing impaired populations.[5]

The Universal Service Administrative Company (USAC) administers the four universal service support mechanisms of the USF under the Commission's direction. These support mechanisms are funded through mandatory contributions from U.S. telecommunications service providers, including local and long distance phone companies, wireless and paging companies, payphone providers, and providers of interconnected Voice over Internet Protocol (VoIP) services. The four universal service support mechanisms are: High Cost, Low Income, Rural Health Care, and Schools and Libraries. These support mechanisms provide money directly to service providers to defray the cost of serving customers in high cost and rural areas, and to defray the costs of serving low income consumers as well. In addition, these mechanisms provide support for discounts to schools and libraries and rural health care providers. In FY 2009, the USF accounted for approximately $7.5 billion on the Commission's Combined Statement of Budgetary Resources. Additional information on USAC and the USF, respectively, can be found at http://www.usac.org and http://www.fcc.gov/wcb/tapd/universal_service/welcome.html.

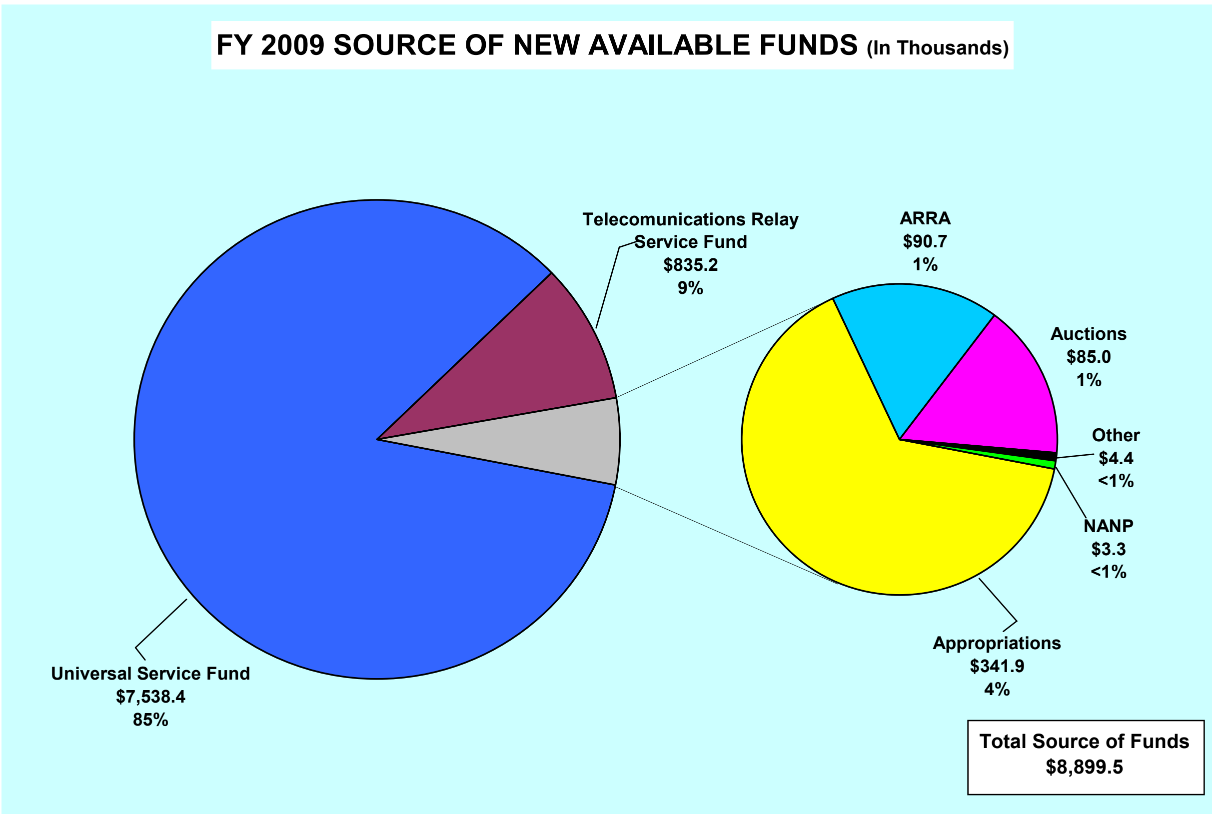
The National Exchange Carrier Association (NECA) administers the TRS Fund under the Commission's direction. The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to communicate with a person without hearing or speech disabilities. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services. In FY 2009, TRS accounted for approximately $835 million on the Commission's Combined Statement of Budgetary Resources. Additional information on NECA and TRS can be found at http://www.neca.org/ and http://www.fcc.gov/cgb/dro/trs.html.

North American Numbering Plan (NANP) - The NANP is the basic numbering scheme permitting interoperable telecommunications service within the U.S., Canada, Bermuda, and most of the Caribbean. Section 251(e)(1) of the Act requires the Commission to create or designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis. Section 251(e)(2) of the Act requires that the costs of number administration and number portability be borne by all telecommunications carriers on a competitively neutral basis, as determined by the Commission. In implementing section 251, the Commission appointed a NANP Administrator (NANPA), a national Pooling Administrator (PA) to administer thousands block number pooling, and a Billing and Collection Agent. The Commission selected Welch LLP to be the Billing and Collection Agent for NANP effective October 1, 2004. In FY 2009, NANP accounted for approximately $3.9 million on the

[4] 47 U.S.C. § 254.
[5] 47 U.S.C. § 225.

Commission's Consolidated Statement of Net Cost. Additional information on NANPA and the Billing and Collection Agent can be found at http://www.fcc.gov/wcb/cpd/numbering/ and http://www.nanpa.com.

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



The Appropriations figure of $341.9 million in the chart above reflects the authority for the Commission to collect regulatory fees. Included in the above chart are funds transferred from NTIA as part of the American Recovery and Reinvestment Act (ARRA). (For additional information, see Note 1 of the financial statements in section 2.) Not depicted in the above chart are funds collected by the Commission in FY 2009 for Auctions, Application Fees, Fines and Penalties, and additional funds made available to the Commission from reprogramming actions.

Performance Highlights

Consistent with the objectives of the Communications Act as amended, as well as the Government Performance and Results Act (GPRA), the Federal Communications Commission identified six strategic goals in its FY 2009 – FY 2014 Strategic Plan. The strategic goals serve as guidance directing the actions and performance of the Commission. The Commission assesses the achievement of its performance through the accomplishment of its performance goals. Progress toward accomplishing these goals is measured by the progress and completion of various programs and efforts during the fiscal year. There are external influences, including economic, legal, and organizational factors beyond the Commission's control that may influence whether the Commission fully meets every performance goal. Information about these factors is also highlighted in the Commission's Strategic Plan, which can be found at: http://www.fcc.gov/omd/strategicplan.

During the past fiscal year, the Commission made significant progress toward accomplishing its performance goals. Greater detail on these accomplishments will be discussed in the Commission's Annual Performance Report (APR) for FY 2009. The Commission will include the FY 2009 APR with its Congressional Budget Justification and will post it on the Commission web site at http://www.fcc.gov/ by February 2, 2010. In the discussion below, we identify achievements in the Commission's major initiatives during the past fiscal year, organized by Strategic Goal.

BROADBAND

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

The American Recovery and Reinvestment Act of 2009 (Recovery Act) tasked the Commission with creating a National Broadband Plan by February 17, 2010. The Recovery Act states that the National Broadband Plan shall seek to ensure all people of the United States have access to broadband capability and shall establish benchmarks for meeting that goal.

Broadband is the major infrastructure challenge of our time. Earlier generations faced, and rose to, similar challenges with railroads, highways, telephones, and electricity – networks that have connected Americans, served as a platform for commerce, and improved the quality of life for all Americans. The Commission's plan will ensure that our country has a broadband infrastructure appropriate to the challenges and opportunities of the 21st century.

In developing the broadband plan, the Commission is conducting a data-driven process with unparalleled opportunities for public participation. On August 6, 2009, the Commission began an ongoing series of public workshops on a broad range of issues relating to broadband, holding 27 workshops in the last two months of FY 2009. The Commission launched a website (http://www.broadband.gov) that helped open public dialogue around the broadband plan to more citizens and to new voices from around the country, including rural and inner cities, small businesses, and state and local governments. The broadband web site provides schedules and information about the broadband initiative and is a place for all stakeholders to give the Commission input and comments on the progress to date.

The Commission's Broadband Team has also brought other new and innovative methods to fostering a public dialogue. They have helped Americans outside of Washington participate in the workshops using multimedia tools such as interactive webcasting and live panelist testimony via live tele-presence. The Commission also implemented new media applications designed to increase public participation. Blogband is the official blog of the National Broadband Plan and the Commission's first ever blog. Stakeholders can hear from experts at the Commission and provide comments that will be inserted into the public record. The Commission also launched a National Broadband Plan page on IdeaScale. This crowd-sourcing platform allows users to publicly share and discuss ideas, as well as vote on their favorite ideas and topics. IdeaScale will be especially useful in reaching stakeholders outside of Washington, D.C.

The Commission also took steps during FY 2009 to promote the delivery of broadband to rural areas to provide opportunities for Americans residing and working in those areas. The 2008 Farm Bill required the Chairman of the Commission, in coordination with the Secretary of the US Department of Agriculture (USDA), to submit a report to Congress describing a rural broadband strategy. Entitled "Bringing Broadband to Rural America: Report on a Rural Broadband Strategy," the May 2009 report by then-Acting Chairman Copps identified common problems affecting rural broadband, including technological challenges, lack of data and high network costs, and offered recommendations to address those problems. The Commission also established the online resource "Broadband Opportunities for Rural America" website. This website makes available the expertise and resources of the Commission and the USDA in a single, one-stop easy-to-navigate location. It also includes information regarding Recovery Act grant programs administered by the National Telecommunications and Information Administration (NTIA), and USDA's Rural Utilities Service (RUS). The Commission implemented an expansion of its Tower Construction Notice System that will facilitate NTIA and RUS using the system to notify Indian Tribes of potential projects being constructed by Recovery Act grantees. Providing tribes with notification of potential towers helps to ensure that proposed towers are not constructed in locations that are sacred or historically important.

COMPETITION

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

During FY 2009, the Commission addressed the key topics of innovation, investment, competition, and consumers. These values lie at the core of the FCC's mission; they are essential to ensuring that communications in the 21st century will serve as an enduring engine of economic growth for our nation and improve the lives of all Americans. The Commission adopted several *Notices of Inquiry* to gather comments and input from interested parties on its efforts, to increase public participation, and to increase its transparency. The *Wireless Innovation and Investment Notice of Inquiry* adopted by the Commission focuses on the FCC's particular responsibility for managing spectrum, a unique and scarce national resource. It recognizes the vital importance of innovators and entrepreneurs to the work of the Commission. Specifically, it requests inputs and ideas for how the Commission can best maximize investment and innovation in the mobile industry. The inquiry seeks to ascertain what actions the Commission currently undertakes that perhaps it should cease, and what new steps can be taken to fulfill strategic objectives of fostering investment and innovation for our country. The goal of the *Wireless Competition Notice of Inquiry* is to build a solid, analytic foundation for predictable, fact-based competition policy in the wireless sector. This process will continue with the other competition reports the agency is responsible for preparing.

The *Consumer Information and Disclosure Notice of Inquiry* adopted by the Commission asks whether there are additional opportunities to protect and empower American consumers by ensuring sufficient access to relevant information about communications services. The goal of the *Consumer Information and Disclosure Notice of Inquiry* is to allow the Commission to assess whether consumers have adequate information to make informed buying decisions. Access to information in readily understandable formats is essential to ensuring that the competitive marketplace works and that consumers can choose communications services that will meet their needs and not lead to surprise charges.

To make it easier for consumers to switch voice service providers, the Commission adopted rules requiring wireline, wireless, and certain Voice over Internet Protocol (VoIP) providers to transfer a customer's existing number to a new provider within one business day, rather than the existing four-day requirement. Delays in number porting cost consumers money and impede their ability to choose providers based solely on price, quality and service.

The Commission worked to promote a competitive wireless marketplace and provide American consumers with access to a choice of wireless service providers. In this role, the Commission reviewed proposed mergers and transactions in the wireless industry. For example, on an extremely expedited basis, the Commission reviewed and approved in November 2008 the transfer of control of licenses, authorizations, and spectrum manager leasing arrangements in the 2500-2690 MHz band held by Sprint Nextel and its subsidiaries to New Clearwire Corporation

Under the Communications Act, the Commission has broad authority to initiate investigations regarding compliance with the Act or the Commission's rules. To support the Commission's goals related to competition, strong enforcement of the FCC's universal service rules resulted in the issuance of forfeitures, notices of apparent liability, or consent decrees totaling more than $7 million in fines or voluntary contributions to the US Treasury during the past two fiscal years. The investigations associated with these enforcement actions resulted in the recovery or repayment to the Universal Service Fund of over $20 million. In addition, the Commission took action resulting in the debarment of 17 individuals convicted of federal crimes relating to their defrauding the government or engaging in similar acts through activities associated with or related to the schools and libraries E-rate universal service support mechanism.

SPECTRUM

<u>Strategic Goal:</u> *Efficient and effective use of non-federal spectrum domestically and internationally promotes the growth and rapid deployment of innovative and efficient communications technologies and services.*

In its continuing efforts to promote efficient use of spectrum and to extend the benefits of such use to the public, the Commission established rules to allow new, sophisticated wireless devices to operate in broadcast television spectrum on a secondary basis. This unused TV spectrum is now commonly referred to as television "white spaces." These rules will allow for the use of new and innovative types of unlicensed devices in the unused spectrum to provide broadband data and other services for individuals and businesses. The rules represent a careful first step to permit the operation of unlicensed devices in the TV white spaces and include numerous safeguards to protect incumbent services against harmful interference.

The Commission adopted a *Notice of Proposed Rulemaking* seeking comment on allocating spectrum and establishing service and technical rules for the operation of Medical Body Area Networks (MBAN). These could be used to create wireless body sensor networks around individual patients to monitor an array of physiological data, such as temperature, pulse, blood glucose level, blood pressure, respiratory function and a variety of other physiological metrics. MBAN systems would primarily be used in health care facilities, with the potential also of being used in other patient care/monitoring circumstances.

The Commission approved new rules to provide additional spectrum for wireless medical devices. Significant advances in both implanted and body-worn wireless medical technologies are increasing the demand for spectrum and for greater flexibility in how such devices operate and coexist. These new medical technologies will improve the diagnosis and treatment of a wide variety of medical conditions and, most importantly, improve quality of life for people coping with such conditions.

The Commission actively worked on an extensive analysis of various options for making Advanced Wireless Services (AWS) spectrum available on terms and conditions that will maximize its suitability for the provision of wireless broadband service. The Commission also conducted two spectrum auctions during FY 2009.

MEDIA

<u>Strategic Goal:</u> *The Nation's media regulations must promote competition, diversity and localism and facilitate the transition to digital modes of delivery.*

Since June 13, 2009 - the day following the June 12th DTV Transition deadline mandated by Congress for full-power television stations to cease broadcasting in analog - all over-the-air TV broadcasts have been in digital. In the months leading up to this transition, the Commission undertook an unprecedented agency-wide effort to facilitate this transition for the American public. Among the many activities in the Commission's action plan were:

- Dispatching hundreds of Commission employees across the nation, especially to communities in 49 markets that were home to the greatest concentrations of unprepared households. Commission staff members worked with local governments and community-based organizations to get the word out on DTV preparedness and educate consumers on how to get ready. The Chairman and Commissioners also spoke and answered questions about the digital transition at events such as town hall meetings and community gatherings.

- The Commission revamped its DTV web site to make it more useful to the public and easier to use. The updated site gave consumers help and information specific to their communities on a variety of topics. By entering their zip code in a search box, consumers located nearby support centers, got contact information for local stations and found DTV events near them. Online reception maps showed viewers what stations they should be able to receive at their home address once the transition was complete, information that proved useful in choosing and installing an antenna.

- The Commission issued grass roots contracts establishing over 500 walk-in centers and thousands of DTV help clinics across the country to offer consumers hands-on assistance on how to connect and operate converter boxes and provide help in ordering converter box coupons.

- The Commission awarded 34 contracts providing free, in-home technical assistance for consumers having trouble installing their converter boxes and adjusting their antennas for digital signals. Joining Commission contractors in this effort were two valuable volunteer partners – members of AmeriCorps National Civilian Community Corps and fire fighters in cooperation with the International Association of Fire Chiefs. Installation vendors performed an estimated 286,000 successful installations nationwide.

- Operators at the Commission's national DTV help line could troubleshoot common digital-to-analog converter box or antenna installation problems and refer consumers to groups providing in-home installation if more assistance was needed.

- The Commission teamed with Consumers Union to distribute a consumer guide, written by CU's Consumer Reports, which provided clear instructions and diagrams to help viewers prepare for the transition. "DTV Made Easy," a 15-page booklet, could be downloaded from http://www.dtv.gov or obtained by calling the Commission's DTV help line. It was also available at DTV walk-in help centers and mobile clinics throughout much of the country, from in-home installation helpers, and from major retailers.

- The Commission launched a "home stretch" communications campaign including new Public Service Announcements, localized media announcements and interviews, and grassroots educational literature distribution.

- Commission field agents inspected 177 stores for their compliance with DTV labeling requirements for analog-only television receivers. The agency investigated and took action against electronics manufacturers for violations of Commission rules concerning DTV tuners as well as V-Chip requirements.

- The Commission adopted rules for the use of distributed transmission system (DTS) technologies for digital television service. DTS provides broadcasters with an important tool for providing optimum signal coverage for their viewers. For some broadcasters that changed channels or transmitting locations for their digital service, DTS may offer the best option for continuing to provide over-the-air service to current analog viewers, as well as for reaching viewers that have historically been unable to receive a good signal due to terrain or other interference. The Commission also adopted rules authorizing licensees to use television translator stations to replace analog service lost as a result of the DTV transition.

All of this effort served to significantly reduce the number of households unprepared for the Digital TV transition. The Commission continued to provide converter box installation services through the end of August, and still receives thousands of calls each week concerning digital television.

As part of its efforts to ensure a smooth and effective transition to digital TV, the Commission adopted a *Declaratory Ruling*, *Order* and *Further Notice of Proposed Rulemaking* concerning Closed Captioning. Specifically, the Commission clarified some of its closed captioning rules in light of technological changes associated with the DTV transition, amended its rules to provide for more efficient complaint processes and methods for consumers to contact video programming distributors with concerns about closed captioning, and sought comment on how one of the self-implementing exemptions to its closed captioning rules should apply to digital broadcasters that multicast.

In addition to the digital TV transition, the Commission also issued an *Order and Further Notice of Proposed Rulemaking* to improve its collection of data on minority and female broadcast ownership to be able to more accurately assess and effectively promote diversity of ownership in the broadcast industry. The Commission submitted a report to Congress pursuant to the Child Safe Viewing Act of 2007 to assess the extent and availability of advanced blocking technologies and the existence and use of parental empowerment tools to assert control over what children view. Following issuance of that report, the Commission adopted a *Notice of Inquiry* exploring more broadly issues related to the goals of protecting children and empowering parents in the digital age. The Commission also opened a *Notice of Inquiry* concerning Arbitron's portable people meter.

PUBLIC SAFETY AND HOMELAND SECURITY

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

One of the Commission's main missions is to ensure continuous operations and reconstitution of critical communications systems and services during and following emergencies. Among the first actions of Chairman Julius Genachowski when he arrived at the Commission, the Chairman directed the Commission's Public Safety and Homeland Security Bureau to conduct a 30-day, top-to-bottom review of the agency's state of readiness for major public emergencies. On September 8th, the results of the review were released, citing four key areas for improvement:

- The report emphasizes the importance of the Commission's outreach efforts in maintaining strong partnerships with federal, state, tribal, and local governments, the public safety community, and communications service providers. By working closely with its partners, the Commission can identify, in advance, the communications needs of law enforcement agencies, fire departments, and hospitals so that when an emergency arises, key lines of communication will remain open or be quickly restored through a variety of means.

- The report recommends measures aimed at ensuring that the Commission can proactively respond to public safety communications needs and communicate accurate and timely information to the public, even if the Commission's internal operations are disrupted. These measures will help make sure the American public and first responders can get the emergency alerts that they need, when they need them.

- Another key role for the Commission is ensuring the security of the nation's communications networks. To better fulfill that role, the Public Safety and Homeland Security Bureau recommended improvements in our network analysis capabilities, established a cyber security working group, and is establishing an advisory council to examine potential improvements for emergency communications.

- The report outlines training programs and drills to equip Commission staff with the skills, tools, and information they need to respond to any emergency. This training will inform staff of their collective and individual roles during crisis situations. Staff will also learn about management software systems that provide accurate and timely information in emergencies.

Overall, while confirming that the Commission stands ready to respond to communications emergencies, the report reminds us that the agency must continuously strive to maximize its readiness, to ensure that it is prepared to meet its vital mission in the digital age, and to work toward helping our country's first responders deploy 21st century technologies in support of their operational requirements. The Commission has set an aggressive schedule to implement the report's recommendations.

In June 2009, the Commission sent an outreach team to five Gulf Coast cities to meet with state, county and local public safety officials about public safety and emergency response communications issues. The team conducted site visits in Houston, TX; Baton Rouge, LA; Biloxi, MS; Mobile, AL; and Tallahassee, FL. Each of the visits included meetings with public safety officials and tours of state or county emergency operations centers and 9-1-1 Call Centers, as well as area hospitals.

The Commission also adopted a *Report and Order and Further Notice of Proposed Rulemaking* addressing the 4.9 GHz band. The rules will help expand and enhance first responders' deployment of broadband communication technologies across the nation in the 4.9 GHz band, thereby helping to stimulate the economy. The new rules will also better enable first responders to more easily share time-sensitive data and streaming video footage in emergencies or life-threatening incidents.

MODERNIZE THE FCC

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

The Commission is striving to become a model for excellence in government. The American people deserve a Commission that efficiently and effectively achieves the goals that Congress has set out for it; encourages and facilitates participation by all stakeholders; and is data-driven in its decision-making. To help achieve these goals, Chairman Genachowski appointed a Special Counsel for FCC reform. Along with the General Counsel and Managing Director, the Special Counsel will focus on reform and efficiency, perform a thorough review of the Commission's existing processes and make recommendations for improvement. The reform agenda includes a review of the Commission's systems and processes for data collection, analysis and dissemination; improvements in the Commission's licensing, comment and complaint filing systems; modernizing the information infrastructure to ensure the agency functions effectively and efficiently; moving the Commission's workforce forward by streamlining operations, greening the agency, and providing leadership development and training; improving our institutional processes by better management of workflow as well as reviewing our rules and policies to reduce backlogs; and reviewing the agency's financial operations.

The Commission is also committed to soliciting public feedback and to upgrading its website – one of the main ways in which the agency interacts with the public. The Commission is focused on improving navigation, search capabilities, and the accessibility of information on its site. Our goal is an inclusive process through which the public can be involved in the work of the Commission. The Commission is connecting to multiple forms of social media. At http://www.fcc.gov/connect, stakeholders can find numerous platforms to learn about the Commission and participate in agency processes. The Commission has also launched an internal online forum where employees can submit their ideas for improvement and reform. On the site, employees are involved in dozens of conversations about how to improve the agency.

To ensure that the Commission is data-driven in its decision making, the Commission's Office of Strategic Planning and Policy Analysis is conducting a top-to-bottom review of the Commission's systems and processes for data collection, processing, analysis, and dissemination. As the nation's expert agency on communications, the Commission must have access to, and base its decisions on, data that are robust, reliable, and relevant. The review will address whether any new data should be collected, whether any existing data reporting requirements should be streamlined or eliminated, and whether existing technological platforms can be modernized to make our use of data more effective and efficient.

As an ancillary to the data review, the Commission is also assessing the database and communications infrastructure of the Commission. An initial review strongly suggests that a significant upgrade will be warranted to bring the Commission into the 21st century. The Commission has launched an initiative that will combine the functions of many of our current licensing applications into a single consolidated system. The new consolidated system will give the public a consistent interface and will standardize business practices across bureaus and offices. We have updated our Electronic Comment Filing System (ECFS), which allows the public to submit, research, and print comments filed with the agency. The improved ECFS is easier to navigate, has greater search capabilities, allows the filing of comments in multiple proceedings with a single submission, and allows filers to learn of new comments matching given criteria via RSS feeds.

The Commission deployed an electronic system for the filing of the Hearing Aid Compatibility reports required of mobile wireless carriers and handset manufacturers on May 30, 2009. This reform greatly streamlined the process for filing these reports and enhanced the availability of information regarding HAC handsets.

The Commission implemented a voluntary electronic system for compliance with Section 106 of the National Historic Preservation Act. The Commission's rules require licensees and applicants to evaluate whether proposed facilities such as antenna towers may affect historic properties that are listed or eligible for listing in the National Register of Historic Places. Implementation of this automated system has greatly enhanced the compliance process for both Commission staff and outside parties.

Management Assurances

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

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

The Commission received an unqualified opinion on its financial statements in FY 2007 and FY 2008. In conjunction with both of those opinions, the independent auditors provided the Commission with reports on internal control and compliance with laws and regulations. The independent auditor's report identified no material weaknesses in internal controls in FY 2007 and one material weakness in FY 2008 on USF budgetary accounts. The FY 2008 report on internal control did include three significant deficiencies in the following areas: 1) the financial reporting process, 2) the allowance for loss on accounts receivable methodology, and 3) some information technology control deficiencies. In both fiscal years the Commission also received findings of non-compliance with the Federal Managers' Financial Integrity Act (FMFIA) and the Debt Collection Improvement Act of 1996 (DCIA). The Commission continues to work diligently on closing all findings from prior year audits and has made significant progress on resolving most recommendations presented.

The Commission has continued its efforts to develop a baseline on internal control as it works within the requirements of OMB Circular A-123. The Commission's Senior Management Council continues to meet regularly to strengthen its efforts and efficiencies over Commission operations. During the current fiscal year, the Commission has required two of its reporting components, USAC and NECA, to establish an OMB Circular A-123 framework and take the appropriate steps to implement their frameworks. Additionally, the Commission has prepared two additional risk assessments over two major programs under its oversight, the digital television transition and the national broadband plan. The Commission continues to receive unqualified opinions over its financial statements; however, the Commission will continue to focus its efforts to make its internal controls over operations more effective and efficient as it moves forward.

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

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

Statement of Assurance

The Commission's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of FMFIA. The Commission conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB's Circular A-123, *Management's Responsibility for Internal Control.* Based on the results of this evaluation, the Commission can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2009 were operating effectively and no material weaknesses were found in the design or operation of internal controls. In addition, with the exception of the instances of non-conformances with government-wide financial systems requirements discussed below, the Commission can provide reasonable assurance that its financial management systems meet the objectives of FMFIA.

Julius Genachowski
Chairman
November 16, 2009

Status of Internal Controls – Section 2 of FMFIA

During FY 2009, the Commission continued its efforts to improve and strengthen its internal controls over operations and financial reporting. In addition to its own risk assessments over its operations, the Commission instructed USAC and NECA to develop a framework and an implementation timeline for compliance with OMB Circular A-123. The results of this effort are currently under review by the Commission's Senior Management Council and remediation and corrective action plans will be forthcoming as control deficiencies are identified as a result of USAC and NECA risk assessments. Throughout FY 2009, the Commission continued to work diligently to close out audit findings from previous audits. The Commission was able to close out 41 audit findings in FY 2009. The Commission continues to tighten up its controls over operations and improve its policies and procedures where necessary.

Despite recent success, the Commission needs to finish the work at hand. The fiscal year 2009 audit report identifies two significant deficiencies that still need to be resolved. The primary areas of concern relate to the financial reporting process at the Commission and its reporting components, and information technology controls.

Financial Management Systems – Section 4 of FMFIA

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

As previously noted by the Commission's former auditor, the Commission's financial systems do not substantially conform to government-wide requirements. The former auditor noted the following two non-conformances: 1) the Commission lacks a fully integrated financial system and 2) the Commission needs to ensure that the functionality of its financial systems fully complies with Federal requirements. The Commission is working through these instances of non-conformance while performing A-127 reviews of its financial systems.

Because the financial management systems of the Commission and its reporting components are becoming obsolete, the Commission and its reporting components have started the process of deploying new core financial management systems. The Commission's new system is scheduled to be up and running in October 2010 and the reporting components will be up and running sometime later. In support of the FY 2011 deployment, the Commission has been relying on a systematic methodology to document and analyze its current financial process. This analysis has helped the Commission identify the areas for potential process re-engineering and define the needs for its new core financial system. The Commission has already developed an implementation strategy which will best meet its business needs and bring the Commission into substantial compliance with government-wide requirements.

Financial Discussion and Analysis

UNDERSTANDING THE FINANCIAL STATEMENTS

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

The principal financial statements have been prepared to report the financial position and results of operations of the Commission. The statements have been prepared from the books and records of the Commission, in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities. The financial statements and notes are presented in accordance with *OMB Circular No. A-136, Financial Reporting Requirements,* dated June 10, 2009.

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

A summary of the Commission's major financial activities in FY 2009 and FY 2008 is presented in the table below. This table represents the resources available to use (assets) against the amount owed (liabilities) and the amount that comprises the difference (net position). The net cost represents the gross cost of operating the Commission's lines of business less earned revenue. Budgetary resources represent funds made available to the Commission.

CHANGES IN FINANCIAL POSITION IN FY 2009

Consolidated

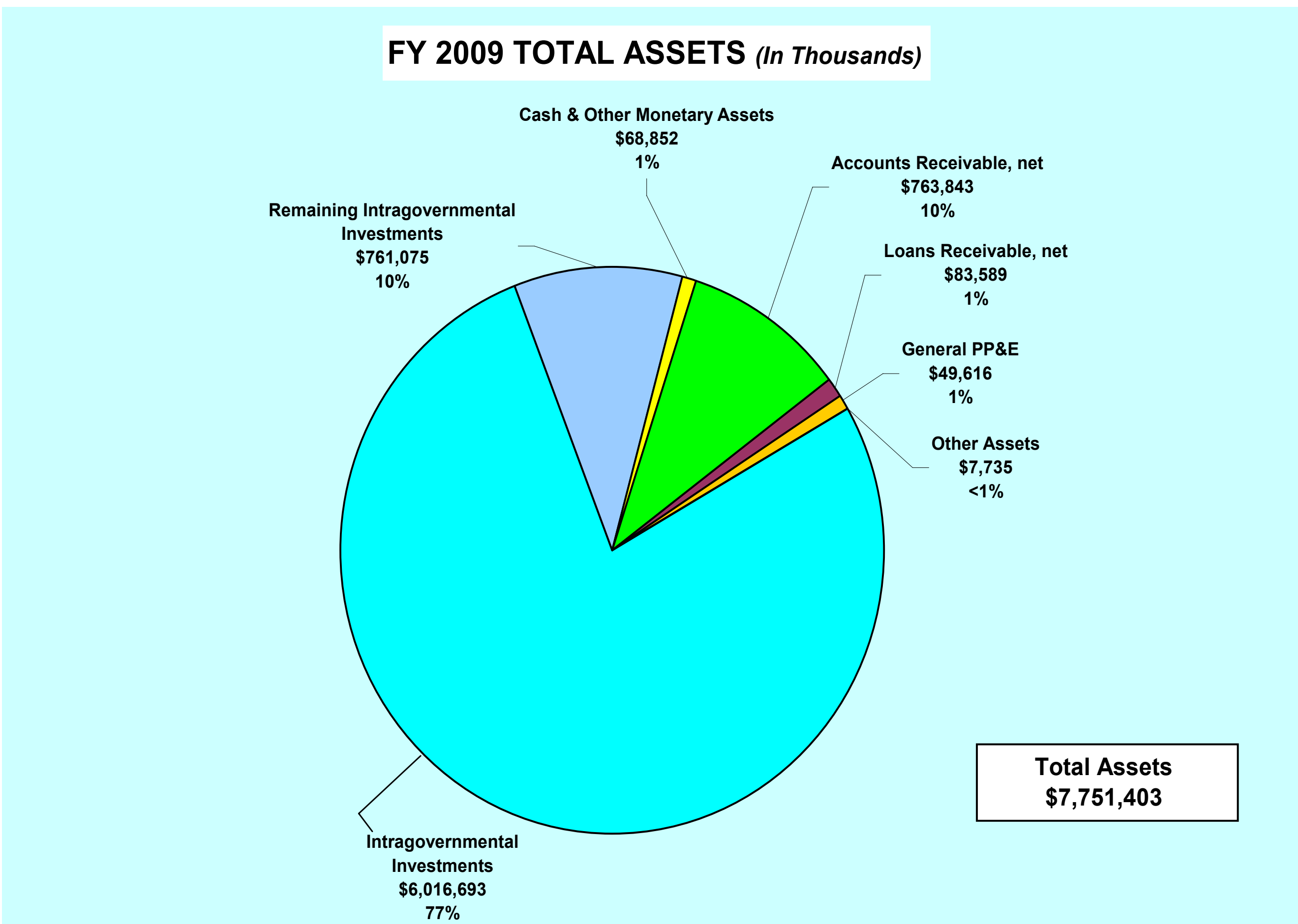
Dollars in Thousands **Net Financial Condition**	**2009**	**2008**	**% Change in Financial Position**
Intragovernmental:			
Fund Balance with Treasury	$ 359,735	$ 444,293	-19%
Investments	6,016,693	5,721,609	5%
Accounts Receivable	889	2,731	-67%
Other	400,451	17,177,707	-98%
Total Intragovernmental	$ 6,777,768	$ 23,346,340	-71%
Cash & Other Monetary Assets	68,852	51,942	33%
Accounts Receivable, net	763,843	891,106	-14%
Loans Receivable, net	83,589	187,340	-55%
General PP&E	49,616	36,082	38%
Other	7,735	15,031	-49%
Total Assets	**$ 7,751,403**	**$ 24,527,841**	**-68%**
Intragovernmental:			
Debt	$ 46,484	$ 112,711	-59%
Other	117,921	196,200	-40%
Total Intragovernmental	$ 164,405	$ 308,911	-47%
Accounts Payable	79,733	79,569	0%
Deferred Revenue	528,234	17,302,548	-97%
Prepaid Contributions	57,670	73,179	-21%
Accrued Liabilities for Universal Service	591,512	521,319	13%
Other	62,778	46,471	35%
Total Liabilities	**$ 1,484,332**	**$ 18,331,997**	**-92%**
Unexpended Appropriations	$ 44,000	$ 11,273	290%
Cumulative Results of Operations	6,223,071	6,184,571	1%
Total Net Position	$ 6,267,071	$ 6,195,844	1%
Net Cost	**$ 8,194,593**	**$ 7,822,436**	**5%**
Budgetary Resources	**$ 12,493,760**	**$ 11,790,458**	**6%**

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

Consolidated Balance Sheet: The Consolidated Balance Sheet presents the total amounts available for use by the Commission (total assets) and the amounts owed by the Commission (total liabilities). Investments and Accounts Receivable represent over 87% of total assets as of September 30, 2009.

The graph below presents the total assets of the Commission for September 30, 2009. The large Investments balance of $6,017 million mainly results from carryover in the USF Schools and Libraries and Rural Healthcare programs ($5,691 million) and carryover in the Telecommunications Relay Service program ($326 million) that have grown since the programs' inception as a result of annual contributions that have exceeded annual distributions.

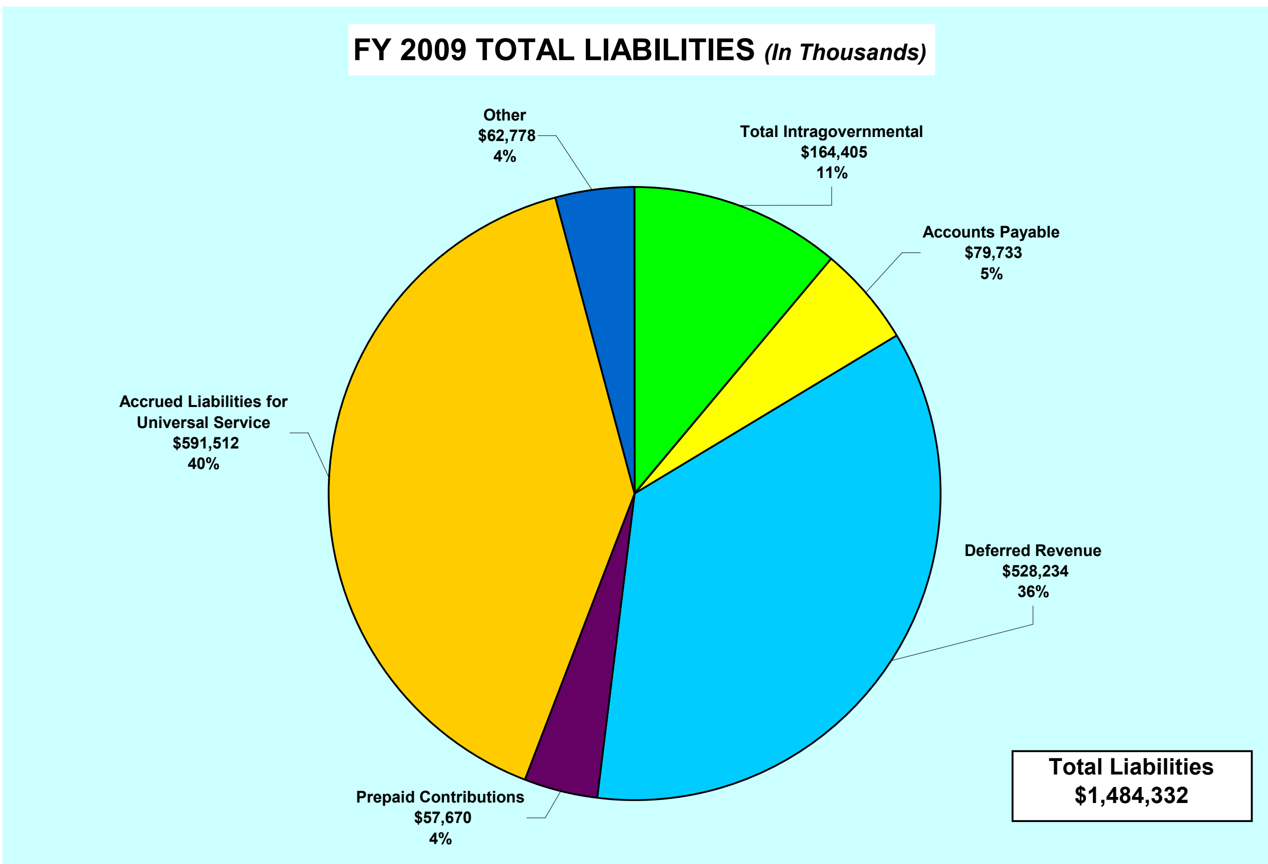
The Accounts Receivable balance of $763 million is primarily composed of USF receivables totaling $757.3 million.



The graph below presents the total liabilities of the Commission for September 30, 2009. The Commission's most significant liabilities are Deferred Revenue of $528 million and Accrued Liabilities for Universal Service of $592 million, which accounted for 75% of total liabilities as of September 30, 2009.

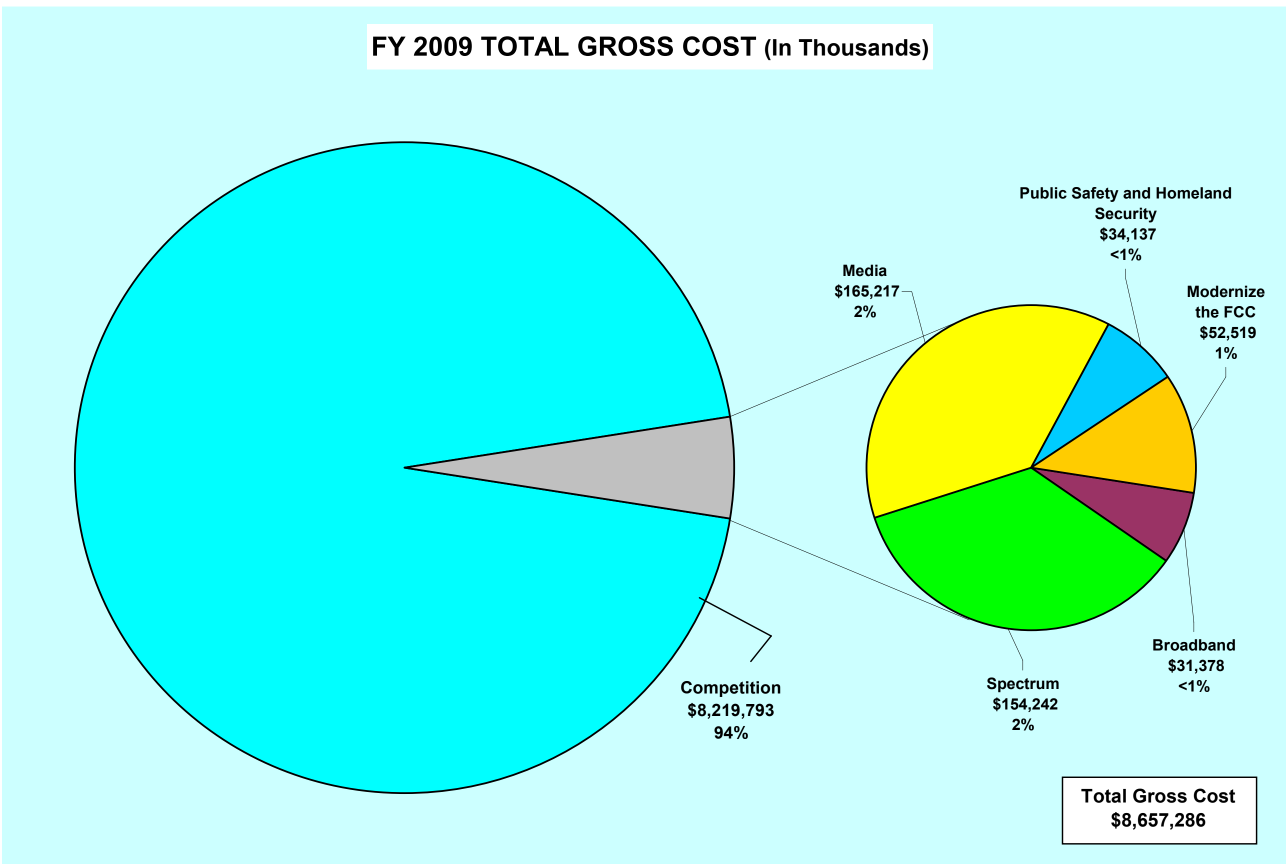
The Deferred Revenue balance includes $400.4 million in winning bids for auction #73 and $27.2 million for other auctions where the corresponding licenses have not been granted. As these licenses are granted the revenue will be recognized on the Statement of Custodial Activity by the Commission.

The Accrued Liabilities for Universal Service represent the expected October (FY 2010) payments for the Telecommunications Relay Service Program and the Universal Service Fund High Cost and Low Income Programs.



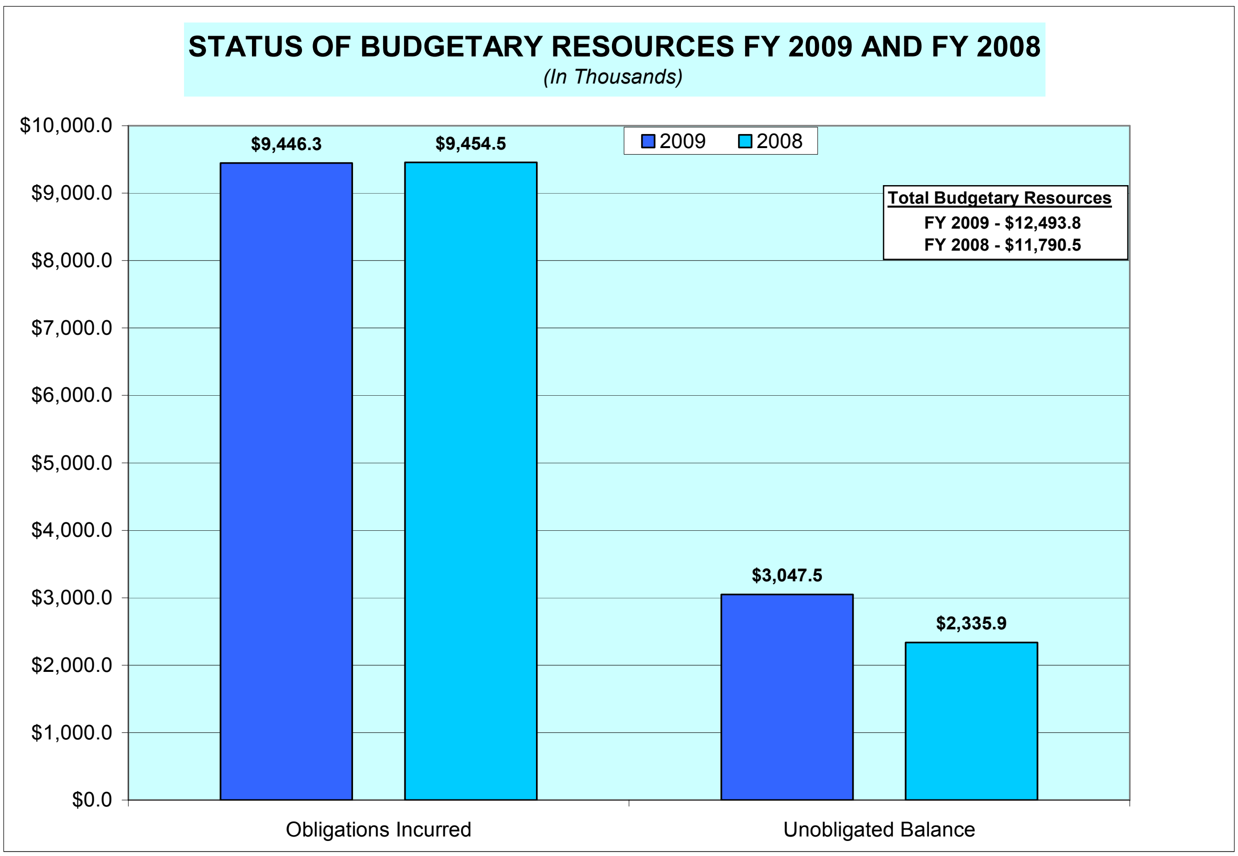
Consolidated Statement of Net Cost: This statement presents the annual cost of operating Commission programs. Gross cost less any offsetting revenue for each program is used to arrive at the net cost of specific program operations. The Consolidated Statement of Net Cost is aligned with the six strategic goals of the Commission: Broadband, Competition, Spectrum, Media, Public Safety and Homeland Security, and Modernize the FCC. Net costs for each goal are presented individually. The program costs for the USF, TRS and NANP are included within the Competition strategic goal. The Commission's subsidy costs for the Spectrum Auction Loan Program are included with the Spectrum strategic goal. As a result of the accounting for these activities, the cost for these goals may be significantly higher than the cost of the four other goals. Contributions received for the USF and TRS programs are shown on the Statement of Changes in Net Position and do not directly offset the costs of these programs on the Statement of Net Cost.

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



Consolidated Statement of Changes in Net Position: This statement presents the cumulative net results of operations and total unexpended appropriations in order to understand the nature of changes to the net position as a whole. The Commission's Net Position increased to $6,267 million or a net increase of $71 million or 1% in FY 2009.

Combined Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available to the Commission for the year and the status of those budgetary resources at the end of the year. The Commission receives most of its budgetary authority from appropriations. Budgetary resources consist of the resources available to the Commission at the beginning of the year, plus appropriations, spending authority from offsetting collections, and other budgetary resources received during the year. The Commission had $12.5 billion in budgetary resources of which $9.4 billion was incurred and $3 billion remained unobligated. The chart below presents the status of budgetary resources comparatively between FY 2009 and FY 2008.



Consolidated Statement of Custodial Activity: The Commission recognized $16,808 million of custodial revenue during FY 2009. From this balance $16,806 million was transferred to Treasury and other entities, primarily NTIA who received $16,690 to fund efforts under the Digital Television Transition and Public Safety Act of 2005. The remaining Auctions revenues were retained by the Commission.

OTHER KEY FINANCIAL STATEMENT HIGHLIGHTS

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

The Commission's FY 2010 subsidy reestimate was completed to reflect the actual loan performance through August 31, 2009 and projected performance through September 30, 2009. The reestimate resulted in a net downward adjustment (decrease in the subsidy cost), including interest on the reestimate, totaling $43 million in the Spectrum Auction program.

This reestimate is reported in the Commission's FY 2009 financial statements, but will not be reported in the budget until FY 2010. For more details, see financial statement Footnote 7 in section 2.

Regulatory Fee Collections

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

Regulatory fees are collected and warranted back to the Treasury to offset the Commission's appropriations for the current fiscal year. In FY 2009, the Commission was required to collect $341.9 million in regulatory fees. The Commission actually collected slightly over $341.9 million.

Possible Future Effects of Existing Events and Conditions

The last active loans in the Commission's spectrum auction loan program were repaid during FY 2007. In conjunction with this event, the Commission generated the FY 2009 and FY 2010 subsidy reestimates using a balances approach designed to align the Commission's outstanding debt to Treasury with the projected remaining cash flows for the program. The generation of the remaining cash flows is dependent upon the outcome of bankruptcy proceedings, settlement efforts, and Treasury collection efforts on remaining loans, which are all either in a bankruptcy or default status.

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

Limitations on the Financial Statements

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

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

2. Financial Section

Message from the Chief Financial Officer

I am pleased to present the Commission's financial statements for fiscal year (FY) 2009 and to report that the Commission's auditors issued an unqualified opinion on each of the Commission's financial statements for FY 2009. Furthermore, I am proud to say that this is the fourth straight fiscal year the Commission has received an unqualified opinion. Four straight years of unqualified opinions is the longest consecutive period of "clean" audit opinions that the Commission has received in the eleven fiscal years that its financial statements have been audited, dating back to FY 1999. The Commission is proud of the work of its staff over the past four fiscal years to obtain and maintain an unqualified opinion.

Throughout FY 2009, the Commission worked diligently on closing audit findings from previous audits. The Commission as a whole closed 41 audit findings during FY 2009, and has closed more than 481 audit findings in the last four fiscal years. As a part of this effort, the Commission made progress on resolving matters raised by its auditors in their FY 2008 audit report. The Commission closed findings relating to the financial management of its reporting components and compliance with the Debt Collection Improvement Act. Furthermore, the Commission made progress in resolving findings related to its financial management systems by continuing with the development of a new core financial system, and reviewing its current feeder systems as required by Office of Management and Budget Circular A-127.

Significantly, for FY 2009 the Commission's independent auditor did not report any material weaknesses for the Commission or its reporting components. During FY 2009, the Commission closed the material weakness that was reported during the prior year audit relating to the Universal Service Administrative Company (USAC), which administers the $7.5 billion Universal Service Fund (USF) under Commission oversight. The material weakness related to USAC's misinterpretation of a Commission instruction. As a result of this misinterpretation, USAC did not properly implement a change to an accepted accounting method. The Commission implemented appropriate corrective action to insure this or similar breakdowns do not occur in the future, and used the situation as an opportunity to continue to build on its oversight of USAC and the USF.

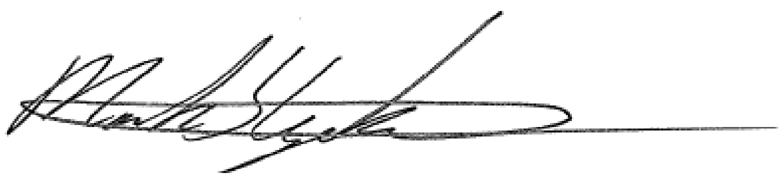
Despite these successes, work remains here at the Commission. The FY 2009 audit report points out two significant deficiencies related to internal controls and notes one instance of non-compliance that still needs to be resolved. The primary areas of concern relate to financial reporting processes, information technology controls, and compliance with the Federal Managers' Financial Integrity Act.

One of the Commission's greatest challenges to resolving the auditors' findings and improving the performance of its financial reporting process is to implement a new core financial management system. The Commission has taken steps throughout the last couple years to resolve this finding and improve the performance of its financial reporting process through the implementation of a new core financial management system. The Commission is currently relying on a core financial management system that is antiquated and no longer is supported by its vendor. The Commission has approached the replacement of its core financial management system as an opportunity to deliver on its strategic goal of modernizing the Commission, to improve the efficiency and effectiveness of financial operations, and to replace disparate financial systems with a single integrated financial system. The Commission released its solicitation for proposals for a new core financial system at the end of FY 2007. During FY 2008, the Commission selected a vendor to supply the new core financial system and provide integration services. The Commission also selected a vendor to assist with change management, data clean up, and improvements to business process flows as it moves to the new core financial system. During FY 2009, the Commission worked diligently with the selected vendor on the initiation, requirements, design, development, and testing phases of this project. In FY 2010, the Commission plans to complete the deployment of the new financial system and to go live with the system at the beginning of the first quarter of FY 2011.

Intertwined with the Commission's challenge of implementing its own new core financial management system are the Commission's efforts to work closely with its reporting components in their efforts to implement new core financial systems. During FY 2010 the Commission plans to work closely with its reporting components in their efforts to modernize their financial systems.

Finally, the Commission is committed to minimizing the risk of improper payments and to reducing improper payments to the customers and beneficiaries of its reporting components, the Universal Service Fund and the Telecommunications Relay Service Fund. The Commission continues to make improvements to the management, administration and oversight of these funds.

I look forward to FY 2010 and making every effort to continue to strengthen the Commission's and its reporting components' internal control environments and to improve the effectiveness of the Commission's and its reporting components' financial operations.



Mark Stephens
Chief Financial Officer
November 16, 2009

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 13, 2009

TO: Julius Genachowski, Chairman

FROM: David L. Hunt, Acting Inspector General

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2009

In accordance with the Accountability of Tax Dollars Act of 2002 (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm of KPMG LLP to audit the fiscal year 2009 financial statements of the Federal Communications Commission (FCC) in accordance with generally accepted government auditing standards (GAGAS).

KPMG LLP's reports include: (1) an opinion on FCC's financial statements; (2) a report on internal control over financial reporting; and (3) a report on compliance and other matters. In summary, KPMG LLP found that:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- There are no material weaknesses in internal control.
- There are two significant deficiencies noted. The first significant deficiency is with the FCC's financial reporting process. The second is in the area of the information technology controls.
- There was one instance of noncompliance with laws and regulations related to the Federal Managers' Financial Integrity Act. Specifically, the FCC reporting component entities' current financial systems and processes are not capable of achieving the financial system integration standards set within the OMB Circular A-127 guidance for complying with section 4 of FMFIA.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of it's representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express an opinion and we do not express an opinion on the FCC's financial statements, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws and regulations. KPMG LLP is wholly responsible for the attached report dated November 12, 2009 and the conclusions expressed therein.

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

David L. Hunt
Acting Inspector General

cc: Managing Director
Chief of Staff
Chief Financial Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Managing Director
Federal Communications Commission

Inspector General
Federal Communications Commission

We have audited the accompanying consolidated balance sheet of the Federal Communications Commission (FCC) as of September 30, 2009, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended. These consolidated financial statements are the responsibility of the FCC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of FCC as of September 30, 2008, were audited by other auditors whose report thereon dated November 13, 2008, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

The information in the Message from the Chairman and Other Accompanying Information sections are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 12, 2009, on our consideration of the FCC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

November 12, 2009

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

Managing Director
Federal Communications Commission

Inspector General
Federal Communications Commission

We have audited the consolidated balance sheet of the Federal Communications Commission (FCC) as of September 30, 2009 and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended, and have issued our report thereon dated November 12, 2009. The accompanying consolidated financial statements of FCC as of September 30, 2008, were audited by other auditors whose report thereon dated November 13, 2008, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the FCC is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 audit, we considered the FCC's internal control over financial reporting by obtaining an understanding of the FCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the FCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FCC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

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

In our fiscal year 2009 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, described in Exhibit I. Exhibit II presents the status of prior years' findings and recommendations.

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

We noted certain additional matters that we have reported to management of the FCC in a separate letter dated November 12, 2009.

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

KPMG LLP

November 12, 2009

EXHIBIT I

SIGNIFICANT DEFICIENCIES

Financial Reporting Process

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

During our fiscal year 2009 internal control and substantive test work procedures, we observed that the FCC reporting component entities' current financial systems and processes are not capable of achieving the financial system integration standards set forth within OMB Circular A-127. These standards require that the consolidated financial statements be prepared from an accounting system that is an integral part of a financial management system containing sufficient structure, effective internal control and reliable data. Many of the FCC's significant transactions are tracked on Excel spreadsheets and recorded into the general ledger at a summary level. Significant examples of this include (all amounts in thousands as of 6/30/09):

- Spectrum Auction Activities for FCC – $16,790,302
- Investment Transactions for USF and TRS – $5,760,304
- Deferred Revenues for FCC – $463,175
- Accounts Payable Transactions for USF – $44,178
- Loans Transactions for FCC – $112,711
- Budgetary Transactions/Entities for FCC, USF and TRS – $6,432,027
- Property Transactions for FCC – $31,248
- On-Top Financial Statement Adjustments - $1,195,413
- Accounts Receivable maintained outside of the AR Subsidiary Ledger for USF – $352,843

Inadequate financial system integration and the continued use of manual reporting processes increases the risk of potential errors in the consolidated financial statements going undetected by management, and results in non-compliance with OMB guidance.

Recommendations

1. Implement a financial system that is fully integrated and has the ability to record proprietary and budgetary transactions on a transactional basis and complies with the requirements set forth in OMB Circular A-127. The system should be flexible to accommodate new accounting requirements issued by FASAB, OMB and Treasury. **(Updated)**

2. Develop a standard set of transaction codes to process all routine transactions and to allow automated, timely, and accurate recording for all recurring entries that are currently entered manually. **(Updated)**
3. Develop an electronic integration between the subsidiary systems and the FCC financial management system to enable FCC component entities to process accounting transactions or report financial data efficiently and effectively. **(Updated)**

Information Technology Controls

As reported in FY 2008, the FCC needs to improve its entity-wide security program. An effective security program embodies the organization's internal control responsibilities with respect to securing its IT infrastructure and services. OMB has defined standards within OMB, Circular No. A-123, *Management's Responsibility for Internal Control*, related to control environment, risk assessment, monitoring, information and communication, and internal control activities. For purposes of financial reporting, management is responsible for developing and maintaining internal control activities that comply with OMB standards to ensure reliability of financial reporting.

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

Control Environment

OMB requires management to clearly identify areas of authority and responsibility and appropriately delegate the authority and responsibility throughout the agency. We noted that FCC management had not appointed a Senior Agency Information Security Officer (SAISO) dedicated to planning and overseeing the execution of the FCC's Security Program. In addition, we noted that the FCC had not formally determined and clearly defined its responsibilities with respect to oversight of the USAC security program. Currently, the FCC does not consistently exercise and document oversight of USAC's IT Security program although USAC collects and maintains data on behalf of the FCC.

Risk Assessment

OMB requires management to identify internal and external risks that may prevent the organization from meeting its objectives. We noted that the FCC had not conducted risk assessments for its information systems in accordance with the guidance from National Institute of Standards and Technology (NIST) Special Publication (SP) 800-30, Risk Management Guide for Information Technology Systems, although the FCC's risk assessment reports cite NIST SP 800-30 as guidance. Specifically, FCC's risk assessment reports do not include steps to identify threats and determine risks. In addition, we noted that a number of risk assessments for components of the FCC's general support system were outdated. We also noted that risk assessments for two applications that authenticate users outside of the FCC, did not map to the required assurance levels in OMB Memorandum 04-04 and the required e-authentication controls in NIST SP 800-63, Electronic Authentication Guideline.

Control Activities

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

Security Program

Procedures for completing a certification and accreditation (C&A) package were in draft form and did not contain detailed requirements and procedures for creating a C&A package in accordance with NIST guidance.

System security plans for several systems did not document controls that mapped to the recommended NIST SP 800-53, Recommended Security Controls for Federal Information Systems, minimum baseline controls.

An independent certification agent did not perform security assessments of FCC management and operational controls to support the C&A package of FCC's major applications and general support systems.

One system was placed in operation without C&A and the general support system had not been certified and accredited within the last three years.

Access Controls

The FCC's controls to restrict physical and logical access to FCC systems had a number of deficiencies. One major application lacked system documentation. Controls for limiting physical access to computer rooms were not sufficiently formalized. The FCC's user account management controls were not operating effectively to prevent logical access from being granted to users who should not have access and to remove access from users who no longer needed it. The resolution of identified vulnerabilities was not documented. Finally, the FCC's password policies were inconsistently applied.

Change Control

Access of developers to production was not properly restricted.

Not all application changes were tested and approved before their migration to production and the FCC could not provide documentation on all configuration management changes.

Monitoring

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

OMB also requires that deficiencies found in internal control be reported to the appropriate personnel and management responsible for that area. Deficiencies identified, whether through internal review or by an external audit, should be evaluated and corrected. A systematic process should be in place for addressing deficiencies. We noted that the FCC did not appear to be using its Plans of Action and Milestones (POA&Ms) as an effective management tool for overseeing the remediation of security deficiencies. In addition, we noted that the FCC POA&Ms did not prioritize IT security deficiencies to help ensure significant IT security deficiencies are addressed in a timely manner and receive appropriate resources. Also, we noted that deficiencies documented in POA&MS were not addressed in a timely manner, and that the FCC did not document adequate rationale for delays or changes in milestones. Lastly, we noted that deficiencies in system-level POA&Ms were not documented consistent with OMB and NIST guidance.

Recommendations

The FCC strengthen its security program oversight and planning by:

4. appointing a Senior Agency Information Security Officer (SAISO) dedicated to planning, implementing and monitoring the Commission's security program; **(Updated)**
5. formally documenting its responsibilities for directing and overseeing the information security programs for information systems that collect and maintain FCC data, but are not operated by the FCC, to ensure they are administered consistent with all relevant FCC, NIST and OMB requirements and instructions; **(Updated)**
6. revising and finalizing procedures for completing a C&A package in accordance with NIST guidance. Policies and procedures should require: that security assessment testing cover a representative subset of controls and be performed and directed by personnel with sufficient operational independence, and that the FCC documents system security plans in detail sufficient to plan system security controls for general support systems and major applications that are identical or equivalent to the NIST SP 800-53 minimum baseline controls; and **(Updated)**
7. certifying and accrediting relevant FCC systems. **(Updated)**

The FCC strengthen its approach to performing risk assessments by:

8. implementing procedures for performing risk assessments that help ensure that risk assessments are performed in accordance with NIST guidance and consider a full range of significant risks, and that control recommendations from risk assessments are used to create or update system security plans; **(New)**
9. updating risk assessments at least every three years; **(New)**
10. documenting e-authentication policies and procedures for ensuring FCC's compliance with OMB Memorandum 04-04, E-Authentication Guidance for Federal Agencies; and **(New)**
11. performing e-authentication risk assessments and updating system security plans to define for each e-government application the relevant authentication level and the required level of e-authentication controls to implement. **(New)**

The FCC strengthen its access controls by:

12. documenting the roles and permissions used within major applications; **(New)**
13. granting individuals computer room access only after management approval; **(New)**
14. granting access to FCC systems only after approval by management; **(Updated)**
15. limiting logical access to FCC systems for newly hired employees and contractors pending a favorable result from a background check; **(New)**

16. justifying the access of users with administrator or other elevated access; **(New)**
17. requiring that all user access be reviewed and recertified by management and promptly revoking access for those users who are found to no longer need access or whose access is not recertified; **(Updated)**
18. documenting and implementing procedures for documenting and tracking vulnerability remediation, and **(Updated)**
19. reviewing the scope and applicability of the FCC's password policies, documenting any exceptions to FCC password policies, and wherever applicable, ensuring that password settings are consistent with the FCC's policies. **(Updated)**

The FCC strengthen its change and configuration management controls by:

20. restricting developers' access to the production environment; **(Updated)**
21. revising its draft change management policy to include a requirement that changes be tested before being moved into production, and **(Updated)**
22. implementing change control and configuration management procedures, including procedures for approving changes prior to implementation into production and procedures for maintaining records of changes to facilitate management's review of changes made to FCC systems. **(Updated)**

The FCC strengthen its monitoring controls by:

23. documenting and implementing procedures that ensure that at least annually, the FCC performs security assessment testing of a subset of controls to monitor the controls' effectiveness, with all controls being assessed at least once during the three-year authorization cycle; **(New)**
24. documenting System-level POA&Ms consistent with OMB and NIST guidance, and **(New)**
25. documenting and implementing procedures for the creation, maintenance, and review of POA&Ms, including procedures to help ensure that the FCC documents, prioritizes, tracks and reviews at least quarterly all security weaknesses identified by external and internal reviews. Quarterly reviews should include reporting to the CIO. The rationale for adjusting milestones should be documented. **(New)**

EXHIBIT II

STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of FCC's corrective actions with respect to the findings and recommendations included in the prior years' report on FCC's internal control over financial reporting dated November 13, 2008. The following table provides our assessment of the progress the FCC has made through September 30, 2009 in correcting the material weakness and significant deficiencies identified in the FY 2008 Independent Auditors' Report.

Material Weakness			
Recommendation Number	**Condition Audit Area**	**Recommendation**	**Current Status**
I. USF Budgetary Accounts			
1	Component Entities	Focus management's efforts on performing periodic financial analysis, including fluctuation and trend analysis, at a minimum, on a quarterly basis. Enhancement to the fluctuation analysis should include developing expectations that are directly attributed to financial trends, operational trends or both. In addition, the trends should be based on dollar value, percentage changes or both over a period of time. Each expectation that is not met should be researched and results collaborated by data. Analytical tools that could be used are ratio analysis and trend analysis as well as predictive techniques such as calculation of an expected balance.	Closed
2	Component Entities	Assess the need for more human capital resources assigned to the financial statement preparation and analysis process. The assessment should be conducted as soon as practical. In addition, a cross-training program should be implemented by providing key financial management personnel training related to federal government accounting standards and reporting requirements. Such training should be continuous to ensure financial management staff understands the current requirements.	Closed
Significant Deficiencies			
Recommendation Number	**Condition Audit Area**	**Recommendation**	**Current Status**
I. Financial Reporting Process			
3	FCC Entity	Implement a financial system that is fully integrated and has the ability to record proprietary and budgetary transactions on a transaction basis and complies with the requirements set forth in regulations such as OMB Circular A-127. Management should set up standard transaction codes to the greatest extent possible in the new financial management system to process all routine transactions and to allow automated, timely, and accurate recording for all recurring entries that are currently entered manually. In addition,	Updated – Reported in current year recommendation # 1-3

		electronic integration with the subsidiary systems and with FCC financial management system will enable FCC entities to process accounting transactions or report financial data efficiently and effectively. Subsidiary details should be available at the transaction level so amounts reported in the financial statements are adequately supported and can be easily validated. The system software should be flexible to accommodate new accounting requirements issued by FASAB, OMB, and Treasury	
4	FCC Entity	Formalize and periodically update policies and procedures to a) provide guidance to management and staff in recording both recurring and unique transactions, including budgetary accounts, and b) strengthen internal controls for financial reporting to enhance the timeliness of financial statement preparation and to minimize the risk of preparing inaccurate financials.	Closed
II. Allowance for Loss on Accounts Receivable (ALAR) Methodology			
5	FCC Entity and Component Entities	Develop, formalize and implement the ALAR policies and procedures to reflect an ALAR methodology that includes the following elements: • Performance of a historical trend analysis based on both type and age of receivables to validate the ALAR reserve. If aging trend analysis is not appropriate, management should include the rationale for excluding the aging analysis as supported by historical data in its policy. • Consideration and documentation of other factors that could affect the historical trend in the future and how that assessment affects the ALAR methodology. Such factors include the overall economy of the communications industry, and the credit quality of carriers. Once these factors are considered, management should establish a set of rates for the ALAR reserve by type and age, including consideration for anticipated recoveries. • Development of management's expectations for the trend analysis which includes setting the criteria for variances that are considered significant. Each significant variance should be researched and resolved. The resolution should be supported by collaborating data and maintained by management for review. • Review of the ALAR on an item by item basis when the amounts owed by individual carriers are material and consider their impact on the overall ALAR separately. • Performance of fluctuation analyses of amounts reported by types and ages of the receivables after the calculation is completed. If an aging fluctuation analysis is not appropriate, management should include an explanation of the rationale for excluding aging analysis in its policy.	Closed

6	FCC Entity and Component Entities	Periodically assess the adequacy of the ALAR by comparing the recorded amounts to the estimated amounts. Any adjustments to the current methodology should be documented and supported by data or analysis. The estimated collection and recovery amounts are subject to risk that actual amounts collected may be different than management's estimates. When this occurs, management should further analyze the drivers or factors for such an unexpected occurrence to ensure the validity and reasonableness of the current methodology.	Closed
III. Information Technology Control Deficiencies			
7	FCC Entity	Strengthen its security administration; develop new policies when necessary; renew security policies and procedures before they expire; recertify and accredit systems before accreditation expires and address security vulnerabilities noted in FCC's technology infrastructure.	Updated – Reported in current year recommendation # 4-7, 18
8	FCC Entity	Strengthen system controls and user account management, notably FCC should: • provide more oversight and develop its process to effectively provide standard system configuration, patch management and network vulnerability controls; • encrypt and password-protect data on government-issued laptops and removable devices; • perform periodic review and validation of users to ensure that only authorized users have access to these systems; • document the authorization and justification for all users requesting remote access to system resources; and • enforce password complexity authentication to FCC IT resources	Updated – Reported in current year recommendation # 14, 17-19, 22
9	FCC Entity	Strengthen FCC's application change controls, notably: • Develop and implement a uniform configuration management plan for the consistent testing, approval and implementation of changes across all FCC applications. In addition, FCC should actively involve ITC staff in the testing and implementation decision process. • Enforce separation of duties to ensure that access of developers to the production environments is restricted or supervised. • Update the Support Services Change Management Policy and ensure that post deployment reviews are performed and documented for all changes migrated into production.	Updated – Reported in current year recommendation # 20-22
Non Compliance			
Recommendation Number	**Condition Audit Area**	**Recommendation**	**Current Status**

I. The Federal Managers' Financial Integrity Act (FMFIA)			
10.	FCC Entity and Component Entities	We recommend that management complete OMB Circular A-127 reviews for its financial management system.	Closed
II. Debt Collection Improvement Act (DCIA) of 1996			
11	FCC Entity and Component Entities	Establish and implement guidance in its policies and procedures manual to ensure that delinquent debt 180 days or older is referred to Treasury as required by the Debt Collection Improvement Act and that the TROR is properly reviewed to ensure its reasonableness prior to transmitting to Treasury.	Closed

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

Managing Director
Federal Communications Commission

Inspector General
Federal Communications Commission

We have audited the consolidated balance sheet of the Federal Communications Commission (FCC) as of September 30, 2009, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended, and have issued our report thereon dated November 12, 2009. The accompanying consolidated financial statements of FCC as of September 30, 2008, were audited by other auditors whose report thereon dated November 13, 2008, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

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

We noted certain additional matters that we have reported to management of the FCC in a separate letter dated November 12, 2009.

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

KPMG LLP

November 12, 2009

EXHIBIT I

The Federal Managers' Financial Integrity Act (FMFIA)

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

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

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

OMB Circular A-127, *Financial Management Systems*, provides guidance in complying with section 4 of FMFIA. It states that financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. Once implemented, this financial management system should allow an entity to prepare reliable financial statements in a timely and efficient manner. In doing so, they shall have the following characteristics:

- Common Data Elements - Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout the agency for collection, storage and retrieval of financial information. Government-wide information standards (e.g., the U.S. Government Standard General Ledger) and other external reporting requirements shall be incorporated into the agency's standard data classification requirements.
- Common Transaction Processing - Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.
- Consistent Internal Controls - Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.
- Efficient Transaction Entry - Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

The FCC reporting component entities' current financial systems and processes are not capable of achieving the financial system integration standards set within OMB Circular A-127.

Recommendations were issued under the Financial Reporting Significant Deficiency noted in the *Independent Auditors' Report on Internal Control Over Financial Reporting* dated November 12, 2009.

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Office of the Managing Director

M E M O R A N D U M

DATE: November 13, 2009

TO: David L. Hunt, Acting Inspector General

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

SUBJECT: Management's Response to Independent Auditors' Reports on Internal Control Over Financial Reporting and Compliance and Other Matters for Fiscal Year 2009

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditors' Report on Internal Control Over Financial Reporting* and *Independent Auditors' Report on Compliance and Other Matters*. We appreciate the efforts of your team and the independent auditor, KPMG LLP, to work with the Federal Communications Commission (Commission) throughout the fiscal year (FY) 2009 audit process. This year's audit opinion was the result of commitment and professionalism that both our offices and the independent auditors demonstrated during the FY 2009 audit process. During the entire audit process the Commission worked closely with your office and the independent auditors' team to provide necessary and timely information to facilitate an efficient audit process.

We are pleased that, for the fourth straight year, the independent auditor provided an unqualified opinion and found that the Commission's consolidated financial statements for FY 2009 present fairly, in all material respects, the financial position of the Commission as of September 30, 2009. Four straight years of clean audit opinions is an unprecedented accomplishment for the Commission. We are also pleased that the independent auditor did not identify any material weaknesses in the Commission's financial reporting. We have worked very hard to continue strengthening the Commission's internal controls and improving its financial management.

Despite these successes, work remains here at the Commission. The FY 2009 audit report points out two significant deficiencies related to internal controls and notes one instance of non-compliance that still needs to be resolved. The primary areas of concern relate to the financial reporting process, information technology control weaknesses and noncompliance with the Federal Managers' Financial Integrity Act. We concur with the recommendations made by the independent auditors in their report.

First, with regard to addressing the significant deficiency for the financial reporting process related to the Commission and its reporting components, the Commission has taken steps throughout FY 2008 and 2009 to resolve the auditors' findings and improve the performance of its financial reporting process through the implementation of a new core financial management system. The Commission is currently relying on a core financial management system that is obsolete and is no longer supported by its vendor.

The Commission has approached the replacement of its core financial management system as an opportunity to deliver on its strategic goal of modernizing the Commission, improving the efficiency and effectiveness of financial operations, and to replacing disparate financial systems with a single integrated financial system. The Commission released its solicitation for proposals for a new core financial system at the end of FY 2007. During FY 2008, the Commission selected a vendor to supply the new core financial system and provide integration services. The Commission also selected a vendor to assist with change management, data clean up, and improvements to business process flows as it moves to the new core financial system. During FY 2009, the Commission worked assiduously with the selected vendor on the initiation, requirements, design, development, and testing phases of the project. In FY 2010 the Commission plans to complete the deployment of the new financial system and to go live with a new financial system in October 2010. Also in FY 2010 the Commission plans to work closely with its reporting component's in their efforts to modernize their financial systems.

Second, with respect to the significant deficiency related to information technology control weaknesses, the Commission is already working to fully assess the auditors' recommendations and to develop corrective action plans. Some findings are already in the process of being addressed (e.g., the certification and accreditation of key information technology systems). During FY 2010, the Commission will make every effort to complete corrective action for each of the recommendations associated with these findings so as to avoid any repeat findings in this area.

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

Finally, we are committed to continually strengthening the internal controls of the Commission and its reporting components. This commitment includes developing timely, accurate, and useful performance and financial information to ensure the most effective stewardship of both the funds that the Commission oversees and the funds that the Commission uses to finance its operations. We look forward to working in FY 2010 to resolve the FY 2009 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Steven VanRoekel, Managing Director
Office of Managing Director

Mark Stephens, Chief Financial Officer
Office of Managing Director

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED BALANCE SHEET
As of September 30, 2009 and 2008
(Dollars in thousands)

	FY 2009	FY 2008
ASSETS (Note 2)		
Intragovernmental		
Fund balance with Treasury (Note 3)	$ 359,735	$ 444,293
Investments (Note 5)	6,016,693	5,721,609
Accounts receivable (Note 6)	889	2,731
Other (Note 8)	400,451	17,177,707
Total intragovernmental	6,777,768	23,346,340
Cash and other monetary assets (Note 4)	68,852	51,942
Accounts receivable, net (Note 6)	763,843	891,106
Loans receivable, net (Note 7)	83,589	187,340
General property, plant, and equipment, net	49,616	36,082
Other	7,735	15,031
Total assets	$ 7,751,403	$ 24,527,841
LIABILITIES (Note 9)		
Intragovernmental		
Debt (Note 10)	$ 46,484	$ 112,711
Other (Note 11)		
Custodial	110,808	193,854
Other	7,113	2,346
Total other	117,921	196,200
Total intragovernmental	164,405	308,911
Accounts payable	79,733	79,569
Other (Note 11)		
Deferred revenue (Note 8)	528,234	17,302,548
Prepaid contributions	57,670	73,179
Accrued liabilities for Universal Service	591,512	521,319
Other	62,778	46,471
Total other	1,240,194	17,943,517
Total liabilities	$ 1,484,332	$ 18,331,997
Commitments and Contingencies (Note 13)		
NET POSITION		
Unexpended appropriations - other funds	$ 44,000	$ 11,273
Cumulative results of operations - earmarked funds (Note 19)	6,051,177	5,927,074
Cumulative results of operations - other funds	171,894	257,497
Total net position	$ 6,267,071	$ 6,195,844
Total liabilities and net position	$ 7,751,403	$ 24,527,841

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2009 and 2008
(Dollars in thousands)

	FY 2009	FY 2008
Program costs:		
Broadband:		
Gross costs (Note 14)	$ 31,378	$ 21,787
Less: earned revenue (Note 14)	(34,791)	(25,109)
Net program costs	(3,413)	(3,322)
Competition:		
Gross costs (Note 14)	8,219,793	7,918,069
Less: earned revenue (Note 14)	(114,125)	(119,669)
Net program costs	8,105,668	7,798,400
Spectrum:		
Gross costs (Note 14)	154,242	198,845
Less: earned revenue (Note 14)	(137,218)	(154,572)
Net program costs	17,024	44,273
Media:		
Gross costs (Note 14)	165,217	53,368
Less: earned revenue (Note 14)	(95,437)	(59,717)
Net program costs	69,780	(6,349)
Public Safety and Homeland Security:		
Gross costs (Note 14)	34,137	32,985
Less: earned revenue (Note 14)	(31,195)	(37,104)
Net program costs	2,942	(4,119)
Modernize the FCC:		
Gross costs (Note 14)	52,519	50,784
Less: earned revenue (Note 14)	(49,334)	(55,920)
Net program costs	3,185	(5,136)
Total Net Program Costs	8,195,186	7,823,747
Cost not assigned to programs:		
Telecommunications Development Fund	2	8,960
Other expenses	(593)	(1,311)
Less: earned revenues not attributed to programs:		
Telecommunications Development Fund	(2)	(8,960)
Net cost of operations	$ 8,194,593	$ 7,822,436

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008
(Dollars in thousands)

	FY 2009 Consolidated Earmarked Funds	FY 2009 Consolidated All Other Funds	FY 2009 Consolidated Total	FY 2008 Consolidated Earmarked Funds	FY 2008 Consolidated All Other Funds	FY 2008 Consolidated Total
Cumulative Results of Operations:						
Beginning Balances	$ 5,927,074	$ 257,497	$ 6,184,571	$ 5,193,576	$ 252,783	$ 5,446,359
Budgetary Financing Sources:						
Other adjustments (rescissions, etc.)	-	(1,164)	(1,164)	-	(2,781)	(2,781)
Appropriations used	-	109,698	109,698	-	7,495	7,495
Non-exchange revenue	8,240,928	-	8,240,928	8,566,063	-	8,566,063
Transfers in/out without reimbursement	-	-	-	(21,480)	21,480	-
Other Financing Sources (Non Exchange):						
Transfers in/out without reimbursement	-	(19,444)	(19,444)	-	(22,115)	(22,115)
Imputed financing	-	14,608	14,608	-	13,568	13,568
Other	-	(111,533)	(111,533)	-	(1,582)	(1,582)
Total Financing Sources	8,240,928	(7,835)	8,233,093	8,544,583	16,065	8,560,648
Net Cost of Operations	8,116,825	77,768	8,194,593	7,811,085	11,351	7,822,436
Net Change	124,103	(85,603)	38,500	733,498	4,714	738,212
Cumulative Results of Operations	6,051,177	171,894	6,223,071	5,927,074	257,497	6,184,571
Unexpended Appropriations:						
Beginning Balances	-	11,273	11,273	-	17,544	17,544
Budgetary Financing Sources:						
Appropriations received	-	51,765	51,765	-	1,000	1,000
Appropriations transferred in/out	-	90,660	90,660	-	-	-
Other adjustments	-	-	-	-	224	224
Appropriations used	-	(109,698)	(109,698)	-	(7,495)	(7,495)
Total Budgetary Financing Sources	-	32,727	32,727	-	(6,271)	(6,271)
Total Unexpended Appropriations	-	44,000	44,000	-	11,273	11,273
Net Position	$ 6,051,177	$ 215,894	$ 6,267,071	$ 5,927,074	$ 268,770	$ 6,195,844

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008
(Dollars in thousands)

	FY 2009		FY 2008	
	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$ 2,282,036	$ 53,904	$ 1,702,164	$ 45,527
Recoveries of prior year unpaid obligations	1,118,204	-	1,036,931	-
Budget authority:				
Appropriations received	8,425,431	-	8,598,479	-
Borrowing authority (Note 16)	-	63,745	-	6,797
Spending authority from offsetting collections				
Earned:				
Collected	441,543	148,107	411,862	15,258
Change in receivables from Federal sources	(15)	-	7	-
Change in unfilled customer orders:				
Advance received	1,336	-	-	-
Previously unavailable	54,130	-	31,702	-
Budget authority subtotal	8,922,425	211,852	9,042,050	22,055
Nonexpenditure transfers, net, anticipated and actual	90,660	-	-	-
Temporarily not available pursuant to Public Law	(54,185)	-	(54,130)	-
Permanently not available	(1,164)	(129,972)	(4,139)	-
Total budgetary resources	$ 12,357,976	$ 135,784	$ 11,722,876	$ 67,582
Status of Budgetary Resources:				
Obligations incurred: (Note 15)				
Direct	$ 9,321,120	$ 123,440	$ 9,438,478	$ 13,678
Reimbursable	1,740	-	2,361	-
Subtotal	9,322,860	123,440	9,440,839	13,678
Unobligated balance - available:				
Apportioned	350,887	-	113,905	-
Exempt from apportionment	2,656,578	-	2,061,178	-
Unobligated balance not available	27,651	12,344	106,954	53,904
Total status of budgetary resources	$ 12,357,976	$ 135,784	$ 11,722,876	$ 67,582
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 3,588,774	$ -	$ 3,464,773	$ -
Uncollected customer payments from Federal sources, brought forward, October 1	(15)	-	(9)	-
Total unpaid obligated balance, brought forward, net	3,588,759	-	3,464,764	-
Obligations incurred net (+/-)	9,322,860	123,440	9,440,839	13,678
Gross outlays	(8,636,019)	(123,440)	(8,279,906)	(13,678)
Recoveries of prior year unpaid obligations, actual	(1,118,204)	-	(1,036,931)	-
Change in uncollected customer payments from Federal sources	15	-	(7)	-
Total, unpaid obligated balance, net, end of period	3,157,411	-	3,588,759	-
Obligated balance, net, end of period				
Unpaid obligations	3,157,411	-	3,588,774	-
Uncollected customer payments from Federal sources	-	-	(15)	-
Total, unpaid obligated balance, net, end of period	3,157,411	-	3,588,759	-
Net Outlays				
Net Outlays:				
Gross outlays	$ 8,636,019	$ 123,440	$ 8,279,906	$ 13,678
Offsetting collections	(442,879)	(148,107)	(411,862)	(15,258)
Distributed offsetting receipts	(189,641)	-	(216,686)	-
Net outlays	$ 8,003,499	$ (24,667)	$ 7,651,358	$ (1,580)

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2009 and 2008
(Dollars in thousands)

	FY 2009	FY 2008
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 16,791,163	$ 1,793,794
Fines and Penalties	17,745	35,172
Credit Reform	11,915	13,678
TDA Interest	2	8,960
Total Cash Collections	16,820,825	1,851,604
Accrual Adjustments		
Spectrum Auctions	(2,492)	(444)
Fines and Penalties	(9,922)	8,515
Total Accrual Adjustments	(12,414)	8,071
Total Custodial Revenue	16,808,411	1,859,675
Disposition of Collections:		
Transferred to Others:		
Recipient A: U.S. Treasury	(29,660)	(49,010)
Recipient B: Finance Acct (Recoveries)	(87,238)	-
Recipient C: Spectrum Relocation Fund	-	(92)
Recipient D: National Telecommunications & Information Admin.	(16,689,557)	(1,778,983)
(Increase)/Decrease in Amounts Yet to be Transferred	83,046	62,369
Retained by the Reporting Entity	(85,002)	(93,959)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Basis of Accounting and Presentation

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

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

Fund Balance with Treasury

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Other Monetary Assets

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

Investments

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

Accounts Receivable, Net

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

Loans Receivable, Net

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

Property, Plant and Equipment

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Assets

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

Accounts Payable and Accrued Liabilities

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

Deferred Revenue

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

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

Debt

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

Retirement Plans and Other Benefits

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES **(continued)**

Retirement Plans and Other Benefits (continued)

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

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

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

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

Leave

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

Revenue and Other Financing Sources

Regulatory Fee Collections (Exchange) - The Omnibus Budget Reconciliation Act of 1993 directed the Commission to assess and collect regulatory fees to recover the costs incurred in carrying out certain provisions of its mission. Section 9(a) of the Act, as amended, authorizes the Commission to assess and collect annual regulatory fees to recover the costs, as determined annually by Congress, incurred in carrying out its strategic goals of broadband, competition, spectrum, media, public safety and homeland security, and modernizing the Commission. These fees were established by congressional authority, and, consistent with OMB Circular No. A-25 revised, *User Charges*, the Commission did not determine the full costs associated with its regulatory activity in establishing regulatory fees. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the Commission's annual appropriation at the close of each fiscal year. The regulatory fee levels of $341,875 for FY 2009 and $312,000 for FY 2008 were achieved.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Other Financing Sources (continued)

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*, the Commission accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when a “prepared to grant” or “grant” public notice is issued. The value of available spectrum is determined in the market place at the time of auction. The Commission recognized custodial revenue of $16,788,671 in FY 2009 and $1,793,350 in FY 2008.

Offsetting Collections (Exchange) – One of the Commission’s primary functions is managing the spectrum auction program. Proceeds from the auctions are initially remitted to the Commission and are later transferred to the U.S. Treasury, net of anticipated auction related costs (under 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function). Collections used to offset the cost of performing auctions-related activity were capped at $85,000 in FY 2009 and FY 2008.

Application Fees (Exchange) – Congress authorized the Commission (47 U.S.C. § 8) to impose and collect application processing fees and directed the Commission to prescribe charges for certain types of application processing or authorization services it provides to communications entities over which the Commission has jurisdiction. The Commission amends its Schedule of Application Fees (47 C.F.R. § 1.1102 *et seq*.) to adjust the fees for processing applications and other filings. Section 8(b) of the Act, as amended, requires the Commission to review and adjust its application fees every two years. The adjusted or increased fees reflect the net change in the Consumer Price Index for all Urban Consumers (CPI-U), calculated over a specific period of time**.** Application fees are deposited in the Treasury and are not available for the Commission’s use. Application fees collected totaled $19,444 in FY 2009 and $22,175 in FY 2008.

Reimbursable Work Agreements (Exchange) – The Commission recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. The Commission executed agreements totaling $1,583 in FY 2009 and $2,052 in FY 2008.

Annual Appropriations (Financing Source) – The Commission receives an annual Salaries and Expenses appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. The annual appropriation for FY 2009 is $341,875 which is fully funded by regulatory fee collections. The annual appropriation for FY 2008 was $313,000 with regulatory fee collections of $312,000 resulting in a net appropriation of $1,000. The Commission funds expenditures first from appropriations and then from offsetting collections.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Other Financing Sources (continued)

Subsidy Estimates and Reestimates (Financing Source) – The Commission receives permanent-indefinite authority for its credit reform program account in accordance with the FCRA of 1990, as amended, to fund its subsidy estimates and reestimates, unless otherwise prescribed by OMB. This account records the subsidy costs associated with the direct loans after FY 1991, as well as administrative expenses of the loan program. The Commission received an appropriation for upward subsidy of $51,765 in FY 2009. No appropriation was requested for FY 2008. These appropriations are available until used.

USF (Nonexchange) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service. These contributions represent appropriated and earmarked receipts and are accounted for as a budgetary financing source. Contributions and related interest totaled $8,240,929 in FY 2009 and $8,566,063 in FY 2008.

Digital Television Transition and Public Safety Recovery Act Funds (Financing Source) – During FY 2009 the National Telecommunications and Information Administration (NTIA), U.S. Department of Commerce (DOC), transferred $70,605 in appropriated funds to the Commission for the purposes of consumer education and outreach regarding the digital television transition. Total obligations were $66,517 in FY 2009. These funds are part of the American Recovery and Reinvestment Act (ARRA) of 2009.

Broadband Technology Opportunities Program – National Broadband Plan Recovery Act Funds (Financing Source) - During FY 2009, the NTIA transferred $20,055 in appropriated funds to the Commission for the purpose of establishing benchmarks to ensure that all people of the United States have access to broadband capability. Total obligations were $3,144 in FY 2009. These funds are part of the ARRA of 2009.

Allocation of Exchange Revenues

The Commission directly assigns exchange revenue from reimbursable work agreements to specific programs on the statement of net cost. Exchange revenue from regulatory fees, offsetting collections, and application fees is assigned to programs in direct proportion to the level of direct and indirect costs recognized for each program. Radio Spectrum Auction proceeds are exchange revenue but are recorded on the statement of custodial activity because the Commission recognizes virtually no cost in connection with the revenues earned in the spectrum auction.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions with Related Parties

The Commission has a direct oversight relationship with the administrators and billing and collection agents (B&C agents) of funds that are components under the overall Commission entity. These organizations are the USAC, which is both the administrator and B&C agent for the four USF support mechanisms, the NECA which is both the administrator and B&C agent for the TRS Fund, and Neustar which is the administrator for the NANP fund and Welch LLP which is the B&C agent for the NANP fund. The Commission approves the administrative costs paid to these entities from the respective funds that they manage. The administrative costs cover expenses such as the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities. All related party balances as of and for the years ended FY 2009 and FY 2008 are listed below:

	USF	TRS	NANP	Total
FY 2009:				
Administrative Fees	$ 182,711	$ 1,390	$ 3,932	$ 188,033
Due To	-	98	-	98
Due From	7,677	-	-	7,677
Total	$ 190,388	$ 1,488	$ 3,932	$ 195,808
FY 2008:				
Administrative Fees	$ 156,120	$ 1,097	$ 3,875	$ 161,092
Due To	-	93	265	358
Due From	15,031	-	-	15,031
Total	$ 171,151	$ 1,190	$ 4,140	$ 176,481

Net Position

Net Position is the residual difference between assets and liabilities and is comprised of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represents the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations is the net difference since the inception of the Commission of (1) expenses and losses and (2) financing sources including appropriations, revenues, and gains.

NOTE 2 – NON-ENTITY ASSETS

The following summarizes Non-entity Assets as of September 30, 2009 and 2008:

	FY 2009	FY 2008
Intragovernmental:		
Fund Balance with Treasury (FBWT)	$ 143,772	$ 212,116
Accounts Receivable, Net	874	2,716
Other (Note 8)	400,451	17,177,707
Total Intragovernmental	545,097	17,392,539
Cash and Other Monetary Assets	21,012	1
Accounts Receivable, Net	18,053	30,259
Total Non-entity Assets	584,162	17,422,799
Total Entity Assets	7,167,241	7,105,042
Total Assets	$ 7,751,403	$24,527,841

Non-entity Fund Balance with Treasury primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for $132,199 in FY 2009 and $208,390 in FY 2008. Non-entity Cash and Other Monetary Assets also consist of deposits made by spectrum auction bidders that are held outside of Treasury. Receivables considered non-entity are for regulatory fees, application fees, fines and forfeitures, spectrum auction receivables, and International Telecommunications Settlement (ITS) charges.

NOTE 3 – FUND BALANCE WITH TREASURY

The following summarizes Fund Balance with Treasury as of September 30, 2009 and 2008:

FY 2009

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

FY 2008

	Appropriated Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	$ 39,246	$ 53,904	$ -	$ 93,150
Unavailable	56,966	-	-	56,966
Obligated Balance not yet Disbursed	82,061	-	-	82,061
Non-Budgetary FBWT	-	-	212,116	212,116
Total	$ 178,273	$ 53,904	$ 212,116	$ 444,293

NOTE 3 – FUND BALANCE WITH TREASURY (continued)

Appropriated Funds – Includes the salaries and expense appropriation used to fund agency operations, the auction and reimbursable accounts, the no-year accounts used to carry over spectrum auction and regulatory fee funds, and the credit reform program account.

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

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

NOTE 4 – CASH AND OTHER MONETARY ASSETS

The following summarizes Cash and Other Monetary Assets as of September 30, 2009 and 2008:

	FY 2009	FY 2008
Cash and Other Monetary Assets	$ 68,852	$ 51,942

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

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

In FY 2008 Cash and Other Monetary Assets included $1 in deposits or related accrued interest being held for spectrum auctions, $46,864 in USF contributions and related accrued interest being held for distribution, and $5,077 in NANP deposits and related accrued interest.

NOTE 5 - INVESTMENTS

The following summarizes Investments as of September 30, 2009 and 2008:

	Purchase Cost		Amortization Method	Amortized (Premium) Discount		Interest Receivable		Investments, Net		Market Value Disclosures
FY 2009										
Intragovernmental Securities:										
Marketable Securities										
Treasury Bills	$	5,534,226	EI	$	4,844	$	-	$ 5,539,070	$	5,541,136
Treasury Notes		475,786	EI		(1,233)		3,070	477,623		475,891
Total	$	6,010,012		$	3,611	$	3,070	$ 6,016,693	$	6,017,027
FY 2008										
Intragovernmental Securities:										
Marketable Securities										
Treasury Bills	$	5,211,180	EI	$	20,246	$	-	$ 5,231,426	$	5,241,995
Treasury Notes		488,609	EI		(4,045)		5,619	490,183		491,554
Total	$	5,699,789		$	16,201	$	5,619	$ 5,721,609	$	5,733,549

EI - Effective Interest Method

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

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

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

NOTE 6 – ACCOUNTS RECEIVABLE, NET

The following summarizes Accounts Receivable, Net as of September 30, 2009 and 2008:

	Intragovernmental	Public	Total
FY 2009			
Gross Accounts Receivable	$ 889	$ 1,172,675	$ 1,173,564
Allowance for Doubtful Accounts	(-)	(408,832)	(408,832)
Net Accounts Receivable	$ 889	$ 763,843	$ 764,732
FY 2008			
Gross Accounts Receivable	$ 2,731	$ 1,297,076	$ 1,299,807
Allowance for Doubtful Accounts	(-)	(405,970)	(405,970)
Net Accounts Receivable	$ 2,731	$ 891,106	$ 893,837

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

The Notice of Apparent Liabilities (NAL) receivables represent notifications of possible forfeitures, subject to final determination. The NAL receivables are included under the Forfeitures category in the table below. While these receivables are included on the Treasury Report on Receivables at the request of Treasury, the ability to collect these receivables is not determined until a final judgment is issued. A 100% allowance is made for all NAL receivables. Similarly, the Commitment Adjustment (COMAD) for Schools and Libraries audit receivables are subject to appeal and are not considered final until the appeals period has lapsed or a final determination has been issued. The COMAD audit receivables for Schools and Libraries have a 74% allowance in FY 2009 and an 86% allowance in FY 2008.

	FY 2009			FY 2008		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 936,300	$ (218,481)	$ 717,819	$ 1,043,273	$ (198,862)	$ 844,411
COMAD - Schools and Libraries	104,818	(77,145)	27,673	115,016	(98,914)	16,102
Regulatory Fees	29,452	(15,159)	14,293	29,498	(15,684)	13,814
Spectrum Auction	21,246	(21,246)	-	26,089	(23,596)	2,493
Forfeitures	69,821	(68,237)	1,584	72,410	(60,767)	11,643
Other	11,927	(8,564)	3,363	13,521	(8,147)	5,374
Total	$ 1,173,564	$ (408,832)	$ 764,732	$ 1,299,807	$ (405,970)	$ 893,837

NOTE 7 – LOANS RECEIVABLE, NET

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

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

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

As required under the FCRA of 1990, as amended, the Commission coordinates with the OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and reestimates. The most recent subsidy reestimate was completed in September 2009 for actual performance data through August 31, 2009. The reestimate resulted in a net downward adjustment, including interest on the reestimate, of $43,179 reported in the FY 2009 financial statements.

Direct Loans

Loan Program	Loans Receivable, Gross	Interest Receivable	Other Receivables	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Spectrum Auctions:					
FY 2009 Bal.	$ 201,965	$ 15,467	$ 1,408	$ (135,251)	$ 83,589
FY 2008 Bal.	$ 210,275	$ 16,511	$ 1,480	$ (40,926)	$ 187,340

Interest accrued on bankrupt and defaulted loans totaled $15,467 in FY 2009 and $16,511 in FY 2008. Other Receivables is composed of outstanding late fees on the loans receivable.

Total Amount of Direct Loans Disbursed

No new loans were issued in FY 2009 or FY 2008.

NOTE 7 – LOANS RECEIVABLE, NET (continued)

Subsidy Expense for Direct Loans by Program and Component

Direct Loan Modifications and Reestimates:

Loan Program	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Spectrum Auctions:				
FY 2009 (Net)	$ -	$ -	$ (43,179)	$ (43,179)
FY 2008 (Net)	$ -	$ -	$ 27,627	$ 27,627

Schedule for Reconciling Subsidy Cost Allowance Balances

	FY 2009	FY 2008
Beginning Balance of the Subsidy Cost Allowance	$ 40,926	$ 190,816
Adjustments:		
Recoveries	87,309	85
Loans written off	(8,137)	(193,048)
Subsidy allowance amortization	(4,483)	15,446
Other	62,815	-
Ending balance before reestimates	178,430	13,299
Subsidy reestimates:		
Technical/default reestimate	(43,179)	27,627
Ending balance of the subsidy cost allowance	$ 135,251	$ 40,926

Administrative Expense	FY 2009	FY 2008
Spectrum Auctions	$ 3,383	$ 6,426

NOTE 8 – OTHER ASSETS

The Commission was required by the Digital Television Transition and Public Safety Act of 2005 to transfer the proceeds received from its competitive bidding system for recovered analog spectrum into the Digital Television Transition and Public Safety Fund (the Fund) by June 30, 2008. At the time of transfer and through September 30, 2008, there were $17,177,707 in proceeds that had not been earned by the Federal government because the licenses related to these proceeds had not been granted. As the custodian for this spectrum, the Commission retained a deferred revenue liability to the public for this amount in the event that any of these proceeds are required to be refunded. As an offset to the liability, the Commission recognized an Intragovernmental Other Asset from the National Telecommunications and Information Administration (NTIA) who held the related Fund Balance. The NTIA recorded a corresponding Other Liability that eliminates with the Commission Other Asset for Government-wide Financial Reporting purposes. Since September 30, 2008, the Commission has granted $16,774,557 and refunded $2,699 to reduce the outstanding Other Asset balance down to $400,451. There is a corresponding balance of $400,451 in Deferred Revenue at September 30, 2009 that relates to Auction #73 licenses that have not yet been granted.

NOTE 9 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2009 and 2008:

	FY 2009	FY 2008
Intragovernmental:		
Other:		
FECA Liability	$ 561	$ 480
GSA Real Estate Taxes	2,095	-
Other:		
Unfunded Leave	19,622	18,190
Accrued Liabilities for Universal Service	591,512	521,319
Total liabilities not covered by budgetary resources	613,790	539,989
Total liabilities covered by budgetary resources	870,542	17,792,008
Total Liabilities	$ 1,484,332	$ 18,331,997

NOTE 10 - DEBT

	FY 2008 Beginning Balance	Net Borrowing	FY 2008 Ending Balance	Net Borrowing	FY 2009 Ending Balance
Debt to the Treasury	$ 105,914	$ 6,797	$ 112,711	$ (66,227)	$ 46,484

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

NOTE 11 – OTHER LIABILITIES

The following summarizes Other Liabilities as of September 30, 2009 and 2008:

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

FY 2008	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 193,854	$ 193,854
Other	-	2,346	2,346
Total Intragovernmental	$ -	$ 196,200	$ 196,200
Deferred Revenue	$ 30,509	$ 17,272,039	$ 17,302,548
Prepaid Contributions	-	73,179	73,179
Accrued Liabilities for Universal Service	-	521,319	521,319
Other		46,471	46,471
Total Other Public	$ 30,509	$ 17,913,008	$ 17,943,517

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

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

NOTE 12 - LEASES

Operating Leases

The Commission has operating leases for rental of office space. As a Federal agency, the Commission is not liable for any lease terms beyond one year. The Commission anticipates that space levels consistent with FY 2009 will be required for the next five years and has estimated space payments consistent with the schedule below. No estimates beyond five years have been provided because of the cancelable nature of the agreements.

Anticipated lease requirements are as follows:

Fiscal Year	Building
2010	$ 45,229
2011	46,238
2012	47,272
2013	48,333
2014	49,421
Total Future Lease Payment	$ 236,493

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

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

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

In September 2007, the National Treasury Employees Union (NTEU) filed a grievance with the Commission under the Federal Labor Standards Act (FLSA) alleging that certain FCC bargaining unit employees were not appropriately compensated for overtime work. The monetary impact of the grievance at this time is not measurable.

NOTE 14 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

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

Program Costs - FY 2009

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

Program Earned Revenue - FY 2009

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

Program Costs - FY 2008

Program	Intragovernmental	Public	Total
Broadband	$ 6,069	$ 15,718	$ 21,787
Competition	28,618	7,889,451	7,918,069
Spectrum	47,898	150,947	198,845
Media	14,543	38,825	53,368
Public Safety and Homeland Security	10,110	22,875	32,985
Modernize the FCC	12,638	38,146	50,784
Total	$ 119,876	$ 8,155,962	$ 8,275,838

Program Earned Revenue - FY 2008

Program	Intragovernmental	Public	Total
Broadband	$ -	$ 25,109	$ 25,109
Competition	-	119,669	119,669
Spectrum	10,112	144,460	154,572
Media	593	59,124	59,717
Public Safety and Homeland Security	1,287	35,817	37,104
Modernize the FCC	-	55,920	55,920
Total	$ 11,992	$ 440,099	$ 452,091

NOTE 15 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT vs. REIMBURSABLE OBLIGATIONS

The following summarizes Apportionment Categories of Obligations Incurred for the years ended September 30, 2009 and 2008:

	FY 2009		FY 2008	
	Budgetary	Non-Budgetary	Budgetary	Non-Budgetary
Direct				
Category A	$ 428,416	$ -	$ 399,995	$ -
Category B	824,764	123,440	654,178	13,678
Exempt from Apportionment	8,067,940	-	8,384,305	-
Total Direct	$ 9,321,120	$ 123,440	$ 9,438,478	$ 13,678
Reimbursable				
Category A	$ 1,740	$ -	$ 2,361	$ -

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

NOTE 16 – TERMS OF BORROWING AUTHORITY USED

Maturity Dates :	FY 2009	FY 2008
September 30, 2009	$ -	$ 543
September 30, 2010	-	1
September 30, 2011	63,745	6,253
Total Borrowing Authority Used	$ 63,745	$ 6,797

The Commission used $63,745 in borrowing authority for the year ended September 30, 2009. This authority was used to extend the maturity dates of the debt owed to BPD. In FY 2008 the Commission used borrowing authority of $6,797 to cover interest expense. The Commission anticipates that this borrowing will be repaid from proceeds generated from the recovery of funds related to bankrupt and defaulted loans.

NOTE 17 – LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

Pursuant to Public Law 111-8, offsetting collections received in excess of $341,875 in FY 2009 shall not be available for obligation and any remaining offsetting collections from prior years collected in excess of the amount specified for collection in each such year otherwise becoming available on October 1, 2008, are not available for obligation.

NOTE 18 – EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES (SBR) AND THE BUDGET OF THE U.S. GOVERNMENT

There were no material differences between the Statement of Budgetary Resources for FY 2008 and the amounts presented in the 2010 President's Budget. The FY 2011 *Budget of the United States Government* (President's Budget) with actual numbers for FY 2009 has not been published. Pursuant to 31 USC § 1105, the *Budget of the United States Government* will be released the first Monday in February, and will be available at the following website: http://www.whitehouse.gov/omb.

NOTE 19 – EARMARKED FUNDS

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

NOTE 19 – EARMARKED FUNDS (continued)

The following summarizes the significant assets, liabilities, and related costs incurred with managing the USF Program as of September 30, 2009 and 2008:

	FY 2009	FY 2008
Balance Sheet		
ASSETS		
Investments	$ 6,016,693	$ 5,721,609
Cash and other monetary assets	44,199	46,864
Acounts receivable, net	757,347	862,058
General property, plant, and equipment, net	15,244	10,723
Other assets	7,677	15,031
Total assets	$ 6,841,160	$ 6,656,285
LIABILITIES		
Accounts payable	$ 77,954	$ 77,125
Deferred revenue	62,875	57,622
Prepaid contributions	57,642	73,145
Accrued liabilities	591,512	521,319
Total liabilities	$ 789,983	$ 729,211
Cumulative results of operations	$ 6,051,177	$ 5,927,074
Total liabilities and net position	$ 6,841,160	$ 6,656,285
Statement of Net Cost		
Gross program costs	$ 8,116,825	$ 7,811,085
Less earned revenues	-	-
Net cost of operations	$ 8,116,825	$ 7,811,085
Statement of Changes in Net Position		
Net position beginning of period	$ 5,927,074	$ 5,193,576
Non-exchange revenue	8,240,928	8,566,063
Transfers in/out without reimbursement	-	(21,480)
Net cost of operations	8,116,825	7,811,085
Change in net position	124,103	733,498
Net position end of period	$ 6,051,177	$ 5,927,074

NOTE 20 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

The amount of budgetary resources obligated for undelivered orders totaled $3,058,208 as of September 30, 2009 and $3,501,751 as of September 30, 2008.

NOTE 21 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

As of September 30, 2009 and 2008:

	FY 2009	FY 2008
Budgetary Resources Obligated:		
Obligations incurred	$ 9,446,300	$ 9,454,517
Less: spending authority from offsetting collections and recoveries	1,709,175	1,464,056
Obligations net of offsetting collections and recoveries	7,737,125	7,990,461
Less: offsetting receipts	189,641	216,686
Net obligations	7,547,484	7,773,775
Other Resources	(116,467)	35,683
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	443,543	(142,273)
Resources that fund expenses recognized in prior periods	-	(32,947)
Budgetary offsetting collections and receipts that do not affect net cost of operations	337,748	196,091
Resources that finance the acquisition of assets	(25,321)	(18,373)
Other	(40,873)	(39,425)
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	1,432	1,004
Upward/Downward reestimates of credit subsidy (+/-)	(43,179)	27,627
Increase in exchange revenue receivable from the public	351	435
Depreciation and amortization	12,174	13,911
Other (+/-)	77,708	6,928
Net Cost of Operations	$ 8,194,593	$ 7,822,436

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2009
(Dollars in thousands)

The OMB Circular No. A-136, "Financial Reporting Requirements," requires additional disclosure of an entity's budgetary information by major budgetary account if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. The major budget accounts include the Commission and the Universal Service Fund. Reflected in the chart below are the major accounts of the Commission that are aggregated and presented in the September 30, 2009 Combined Statement of Budgetary Resources.

FY2009	**S&E**	**Credit**	**Auctions**	**USF**	**Total**
Budgetary Resources:					
Unobligated balances - brought forward, October 1	$ 30,739	$ 63,482	$ 2,488	$ 2,239,231	$ 2,335,940
Recoveries of prior year unpaid obligations	5,935	33	1,689	1,110,547	1,118,204
Budget authority	397,644	263,617	85,000	8,388,016	9,134,277
Nonexpenditure transfers, net, anticipated and actual	90,660	-	-	-	90,660
Temporarily not available pursuant to Public Law	(54,185)	-	-	-	(54,185)
Permanently not available	(75)	(129,972)	(1,089)	-	(131,136)
Total budgetary resources	$ 470,718	$ 197,160	$ 88,088	$ 11,737,794	$ 12,493,760
Status of Budgetary Resources:					
Obligations incurred	$ 429,184	$ 177,815	$ 84,953	$ 8,754,348	$ 9,446,300
Unobligated balances - available	39,981	6,961	-	2,960,523	3,007,465
Unobligated balances - not available	1,553	12,384	3,135	22,923	39,995
Total, status of budgetary resources	$ 470,718	$ 197,160	$ 88,088	$ 11,737,794	$ 12,493,760
Change in Obligated Balance:					
Total unpaid obligated balance, net brought Forward	$ 52,607	$ 2,153	$ 26,578	$ 3,507,421	$ 3,588,759
Obligations incurrred, net	429,184	177,815	84,953	8,754,348	9,446,300
Gross outlays	(408,532)	(178,816)	(80,535)	(8,091,576)	(8,759,459)
Recoveries of prior year unpaid obligations, actual	(5,935)	(33)	(1,689)	(1,110,547)	(1,118,204)
Change in uncollected customer payments from Federal sources	15	-	-	-	15
Total, Unpaid obligated balance, net, end of period	$ 67,339	$ 1,119	$ 29,307	$ 3,059,646	$ 3,157,411
Net Outlays					
Gross outlays	$ 408,532	$ 178,816	$ 80,535	$ 8,091,576	$ 8,759,459
Offsetting collections	(343,529)	(148,107)	(85,000)	(14,350)	(590,986)
Distributed offsetting receipts	(133,006)	-	-	(56,635)	(189,641)
Net outlays	$ (68,003)	$ 30,709	$ (4,465)	$ 8,020,591	$ 7,978,832

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3. Other Accompanying Information

Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
USF Budgetary Accounts	1		1		0
Total Material Weaknesses	1	0	1	0	0

Summary of Management Assurances

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
USF Budgetary Accounts	1		1			0
Total Material Weaknesses	1	0	1	0	0	0

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

Improper Payments Information Act Reporting Details

I. RISK ASSESSMENTS

The Improper Payments Information Act (IPIA) requires Federal agencies to report annually on the extent of improper payments in the programs it administers and on actions taken to reduce such payments. After the requirements of IPIA went into effect, the Commission conducted a complete inventory of its programs that make disbursements. The Commission identified eight programs for analysis. During FY 2007, the Commission re-evaluated these eight programs. Several independent public accounting firms were contracted to perform specific compliance and attestation audits of the USF programs. Based upon the Commission's and independent auditors' evaluations of disbursements from these eight programs, two programs, the Universal Service Fund's (USF) Schools and Libraries Program and High Cost Support Program, continued to have sufficient volume and error rates to warrant further investigation and monitoring. The Commission's Office of Inspector General (OIG) confirmed the Commission's prior analysis of these two programs. However, additional recent testing and follow-up work performed by the Universal Service Administrative Company (USAC), particularly for audits that had been disclaimed or received no opinion by the independent auditor have revealed new information. USAC has reported to the Commission that the initial error rates did not provide a complete assessment of the payments in question. Some of the initial payments identified as improper proved not to be improper once additional documentation was obtained.

In addition to the High Cost and Schools and Libraries programs, the OIG's first round of review in FY 2007 also identified another USF program, the Low Income program, as being at risk for significant improper payments. The OIG is currently reviewing whether the Low Income program disbursement system is in accord with applicable law and meets the goals of eliminating fraud, waste and abuse.

The Commission is still in the process of evaluating all the relevant data from the three rounds of IPIA audits conducted by USAC's independent audit firms to date and will be in a better position to provide the most accurate error rates once this evaluation is complete. During FY 2009 the OIG initiated through USAC a third round of audits of the High Cost Program, Schools and Libraries Program and the Low Income Program. After the third round of IPIA audit results are finalized, the OIG will no longer be directing the audit effort for the IPIA program. During this reporting period the role previously played by the OIG in IPIA implementation has shifted to OMD. The OIG has coordinated with the Office of Managing Director (OMD) to ensure that future IPIA testing is handled through OMD and that OMD coordinates with USAC on audits of beneficiaries. The Commission is currently working with USAC to develop a more complete assessment process to determine compliance with IPIA in FY 2010 that will include both a new audit plan and IPIA assessment plan. Approval is pending with the Commission.

II. STATISTICAL SAMPLING PROCESS

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

As noted in the OIG reports for FY 2007 on the audits of these programs and reiterated below, the margins of error for High Cost and Schools and Libraries were initially reported to be outside the acceptable parameters established by the Office of Management of Budget (OMB) of plus or minus 2.5 percent for measuring improper payments. Recently revised results were reported for the FY 2007 High Cost and Schools and Libraries programs and the Commission is reviewing these results to determine whether these results are within OMB established guidelines. As a result, the Commission, and USAC continue to work with OMB to refine the statistical methodology to produce improper payments results that are within OMB guidelines going forward.

High Cost

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

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

FY 2009 results – The OIG initiated through USAC a third round of audits with similar sampling methods to the first two rounds of audits. In this round, 331 audits were started, however, none of these audits have been completed to date and the OIG has not issued a report. The Commission will provide the results of these audits after all the audits in this round are complete.

Schools and Libraries

FY 2007 results – As previously reported by the OIG and included in the Commission's FY 2007 PAR, the Schools and Libraries program sample design included 155 audits. Each auditee was selected by using a stratified simple random sample of 155 Funding Request Numbers from a population database of 95,558 Funding Request Numbers. In FY 2007 the OIG issued a report with initial results that estimated that the improper payment rate was 12.9% with a margin of error of plus or minus 4.5% and estimated that $210.6 million in improper payments were made for the year tested. USAC conducted additional work on these audits after the OIG issued its initial report. USAC issued a report in FY 2009 that concludes that the estimated improper payment rate is 8.6% with a margin of error of plus or minus 3.7% and estimates $140 million in improper payments. The Commission is currently reviewing the report issued by USAC.

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

FY 2009 results – The OIG initiated a third round of audits through USAC's independent auditors with similar sampling methods to the first two rounds of audits. In this round 346 audits were started. Only a small number of these audits have been completed to date, and the OIG has not issued a report. The Commission will provide the results of these audits after all the audits in this round are complete.

Low Income

As previously reported by the OIG and included in the Commission's FY 2007 PAR, the Low Income program sample design included 60 audits. Each auditee was selected by using a two-stage, stratified simple random sample from a population database of 1,555 Study Area Codes.

In FY 2007 the OIG issued a report with initial results that estimated that the improper payment rate was 9.5% with a margin of error of plus or minus 2.1%, and estimated that $75.5 million in improper payments were made for the year tested. In FY 2008 the OIG performed further review on these same Low Income program results and concluded that the Low Income program had a 100% error rate due to lack of documentation. The OIG's analysis relied on the provision in OMB Circular A-123 that states if an agency's review is unable to discern whether a payment is proper, the payment should be considered an error. Since the OIG's initial analysis, the Acting Inspector General has withdrawn these results and has informed the Commission as well as members of Congress, through a July 28, 2009 letter, that it will provide a new report complete with findings, conclusions, and recommendations.

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

III. CORRECTIVE ACTION PLANS

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

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

Furthermore, in FY 2008, the Commission initiated several measures to address and deter potential improper payments in the USF, in addition to the requirement for the USF Administrator to recover improperly disbursed funds. First, the Commission required the USF Administrator to develop a plan for devoting additional resources to preventing and deterring improper payments. Second, the Commission initiated a *Notice of Inquiry* (NOI) to seek comment from program participants on appropriate follow-up measures resulting from the first round of IPIA audits, including improvements to the appropriate program rules and additional requirements for program participation. Third, the Commission directed the USF Administrator to implement a performance-based compensation program that links executive compensation and bonuses to efforts to reduce and prevent improper payments. Fourth, the Commission directed the USF Administrator to report publicly, on a quarterly basis, on its efforts to reduce and prevent improper payments and the costs associated with such efforts. Finally, the Commission strengthened the Memorandum of Understanding (MOU) with the USF Administrator to require, among other things, performance-based contracting, additional disclosures of contracting actions, enhanced communications requirements, and stronger internal controls. The Commission will continue to review the results of the audits to determine additional steps that can be taken to prevent and reduce improper payments in all its programs.

IV. PROGRAM IMPROPER PAYMENT REPORTING (DOLLARS IN MILLIONS)

FY 2007 IPIA audit results (plus USAC revised estimates)

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

FY 2008 IPIA audit results (plus USAC revised estimates)

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

FY 2009 IPIA audit results

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

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

V. RECOVERY AUDITING REPORTING

The Commission does not enter into contracts with a total value in excess of $500 million in a fiscal year as contemplated by the Recovery Auditing Act, and therefore is not subject to the recovery audit requirements of the Act. The Commission did review its commercial payment universe as a "program" during its risk assessment process. The Commission determined that its commercial payments were not at risk of significant improper payments. Also, as previously discussed under section III on Corrective Action Plans, the Commission does require USAC to seek recovery of all improper payments reported by auditors of USF beneficiaries.

VI. MANAGEMENT ACCOUNTABILITY

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

VII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

The Commission is reviewing the revised results of the FY 2007 audits to determine whether a baseline can be established for the High Cost and Schools and Libraries programs. The Commission will also review the revised results of the FY 2008 High Cost and Schools and Libraries programs when they become available to determine the impact on baseline results. After the results of the FY 2009 audits are completed, the Commission will determine the impact on baseline results. In the case of the Low Income program, the information surrounding the audit results and the issues that led to improper payments is still under review. Until the Commission establishes its baseline year for High Cost and Schools and Libraries, completes its analysis for the Low Income program, and is able to properly set reduction targets for all three programs based on an understanding of the issues, it is not in a position to know whether or not information systems and other infrastructure changes are appropriate at this time.

VIII. STATUTORY AND REGULATORY BARRIERS

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

IX. ADDITIONAL COMMENTS

The Commission has learned a great deal over the past three years from its experience with the three rounds of audits that were previously overseen by the OIG and used to estimate improper payments. These audits helped inform the Commission and its OIG of the work that is required to improve the USF programs and reduce potential improper payments. Additionally, these audits have provided the Commission with a clearer insight into the causes of improper payments in the USF programs.

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UNITED STATES GOVERNMENT
FEDERAL COMMUNCIATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 16, 2009

TO: Julius Genachowski, Chairman

FROM: David L. Hunt, Acting Inspector General

SUBJECT: Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General is submitting its annual statement summarizing our assessment of the most serious management challenges facing the Federal Communications Commission ("FCC") in Fiscal Year 2010 and beyond.

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

Universal Service Fund ("USF")

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

The Office of Inspector General initiated and is supporting many audits and investigations addressing program management issues and allegations of fraudulent activity involving the Fund. While the FCC and USAC have taken steps to reduce the potential for fraud and improper payments, more is needed. Improving the processes by which USAC administers the Fund and ensures prompt recovery of improper payments and the processes by which FCC manages the program and enforces the related rules continue to be significant management challenges.

Telecommunications Relay Service ("TRS") Fund

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

Modernize the FCC

As stated in its strategic plan, the FCC must "create and sustain an organizational culture that encourages innovation, accountability, and continual improvement" and "ensure that its processes, procedures, and systems are integrated, reliable, and user-friendly."

The establishment of an integrated and streamlined e-government infrastructure is a key component in the FCC's modernization effort and will also assist the Commission in its efforts in the event of a global crisis. The FCC has initiated several information technology projects that are designed to improve internal operations and service to the public. Among these projects is the acquisition and implementation of a new core financial accounting system. Management's challenge is to control and manage these projects in such a way that they will be consistent with e-government principles, are completed on schedule and within budget, and provide the functionalities expected when the projects were started.

Another challenge in this area is to maintain effective financial management until the new core financial accounting system is fully implemented. The current financial system has weaknesses that must be managed until remedied by a new system. For example, the current financial system is not integrated with key FCC systems and FCC reporting components (i.e., the Universal Service Fund, the Telecommunications Relay Services Fund, and the North American Numbering Plan). Without automated integration of these systems, financial data for FCC's consolidated financial statements must be compiled manually in a complex and time-consuming process.

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

Sincerely,

Thomas C. Cline

for David L. Hunt

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

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Office of the Managing Director

M E M O R A N D U M

DATE: November 16, 2009

TO: David L. Hunt, Acting Inspector General

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

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

Management appreciates the Office of the Inspector General's (OIG) assessment of the most serious management challenges facing the Federal Communications Commission (Commission or FCC) for fiscal year (FY) 2010 and beyond. In its October 16, 2009 memorandum, the OIG identifies several management challenges facing the Commission, including: (1) improving the processes by which the Universal Service Administrative Company (USAC) administers the Universal Service Fund (USF) and ensures prompt recovery of improper payments and the processes by which the Commission manages the program and enforces the related rules; (2) improving the process by which the Commission manages the Telecommunications Relay Service (TRS) Fund, and the manner in which the TRS Fund is administered by the National Exchange Carrier Association (NECA); (3) controlling and managing information technology (IT) projects in such a way that they will be consistent with e-government principles, are completed on schedule and within budget, and provide the functionalities expected when the projects were started, and 4) maintaining effective financial management until the new core financial accounting system is fully implemented. In addition, the OIG notes that management and performance challenges may arise as a result of the passage of the American Recovery and Reinvestment Act of 2009.

Management concurs with the challenges identified by the OIG. In the upcoming year, management will continue to work with the OIG to address these challenges. Before discussing management's response to each of these challenges, management would like to note the level of effort that it places on resolving any identified control weaknesses. During FY 2009 alone, the Commission closed 41 various audit recommendations, which is indicative of how much emphasis is placed on resolving management and performance challenges.

First, with respect to the USF related program management challenges identified by the OIG, the Commission built upon its efforts in FY 2008 and took significant additional actions during FY 2009 that will improve the controls surrounding the USF for many years to come. The actions that follow are just a summary of the Commission's concerted efforts to improve the USF and USAC's operations throughout FY 2009:

- The Commission worked with USAC and the Department of Justice in successfully pursuing wrongdoers who sought to defraud the USF. In FY 2009, these efforts yielded cash recoveries of over $9 million in fraudulent disbursements. In addition, the defendants in these cases relinquished claims valued at over $150 million. Just after the close of the fiscal year, another case provided an additional $1.4 million in cash recovery. The Commission continues to support DOJ in seeking criminal convictions of defendants charged with E-rate fraud and as of mid-October of FY 2010 continued to pursue more than $145 million in pending claims in active litigation.
- The Commission approved USAC's plan to ensure that executive compensation is based on performance and directed USAC to make certain modifications to the plan, including establishing an incentive-based system for deterring improper payments. Furthermore, the Commission directed USAC to consider compliance with the Commission's rules and with the Memorandum of Understanding (MOU) between the Commission and USAC when evaluating and compensating its executives. Finally, the Commission directed USAC to take into consideration other measures that have the effect of strengthening its internal controls as well.
- The Commission directed USAC to accelerate its implementation schedule for key requirements contained in the MOU to ensure a full and timely implementation of the MOU's key requirements to help safeguard the USF from potential fraud, waste and abuse and to help ensure that the USF is administered in an efficient, effective manner.
- The Commission directed USAC to take all necessary steps required to make payments from the USF electronically. This action will help facilitate the achievement of the Commission's goal of ensuring that the USF is free of potential fraud, waste and abuse.
- The Commission sought comment on several proposals regarding comprehensive reform of the high-cost support mechanism, the universal service contribution methodology, and the low-income support mechanism.
- The Commission received comments on a *Notice of Inquiry (NOI*) seeking recommendations on ways to prevent or reduce improper payments. Through the *NOI*, the Commission also received comments on ways to further strengthen the management, administration, and oversight of the USF, to define more clearly the goals of the USF, and to identify any additional quantifiable performance measures that may be necessary or desirable. The Commission received comments on whether the Commission's oversight of the USF can be improved as well.
- The Commission initiated immediate corrective action efforts, including recovery efforts of any improper payments in response to the results of the OIG's audit program for USF which included 650 audits of the USF program.
- The Commission directed USAC to take corrective action on noncompliance issues identified in an audit related to determining compliance with the Federal Information Security Management Act.
- The Commission directed USAC to correct a material weakness in USAC's internal controls over its budgetary accounting related to USF identified in the Commission's annual audit. To accomplish this corrective action, the Commission directed USAC to ensure that its accounting staff is appropriately resourced and trained; conduct a comprehensive assessment of its policies and procedures governing preparation of the Statement of Budgetary Resources; and perform an in-depth financial analysis, including fluctuation and trend analysis on at least a quarterly basis.
- The Commission suspended and debarred eight individuals from participating in the USF E-rate program as a result of convictions of criminal offenses arising out of activities associated with or related to the E-Rate program. The Commission also proposed a $672,541 forfeiture against a carrier that apparently violated the Commission's USF payment and revenue reporting rules and also reached agreement with five other carriers resulting in voluntary contributions of more than $3.5 million.
- The Commission performed monthly reviews of the administrative expenses of USAC. All beneficiary audit reports were reviewed and recommendations prepared to reduce fraud, waste and abuse.

- The Commission conducted a fraud risk assessment and internal control analysis of USF and identified weaknesses to be strengthened.

With respect to improving the process by which the Commission manages the TRS Fund, and the manner in which the TRS Fund is administered by NECA, the Commission has taken several steps to improve the administration of the TRS fund throughout FY 2009, including:

- The Commission is finalizing a procurement to select, through competitive procurement procedures, an Administrator of the TRS Fund. By selecting the TRS Administrator in accordance with the Federal Acquisition Regulations, the Commission will improve the management, administration, and integrity of the TRS Fund and ensure that the Fund will be administered in an efficient, effective manner.
- The Commission directed NECA, to improve and strengthen its internal controls by implementing, among other things, an internal control structure consistent with Office of Management Budget (OMB) Circular A-123.
- The Commission performed monthly reviews of the administrative expenses of NECA.
- The Commission conducted a fraud risk assessment and internal control analysis of TRS and identified weaknesses to be strengthened.
- The Commission directed NECA to take steps to ensure that TRS funds held outside of the U.S. Treasury are fully protected (collateralized) against bank defaults in accordance with Department of the Treasury requirements.
- The Commission issued a Notice of Proposed Rulemaking seeking comment on whether the Commission should modify the compensation rates for Video Relay Service (VRS) for the 2009-2010 Fund year. In seeking comments on the proposed VRS compensation rates, and whether the compensation rates for VRS should be modified, the Commission continued to assess the compensation of VRS to ensure that providers are compensated for only their reasonable actual costs of providing service in compliance with the TRS rules.
- The Commission directed NECA to conduct reviews of VRS providers' monthly call data records to ensure that payments from the TRS Fund are only for legitimate TRS calls. These efforts are intended to ensure that the integrity of the TRS Fund, which has grown substantially over the years, is not threatened by fraudulent activities or non-compliance and that TRS services will continue to be available to consumers.
- The Commission directed NECA to request additional information from providers where call data submitted by TRS providers indicate potential fraudulent activities or the billing of illegitimate calls. Where a TRS provider cannot demonstrate that minutes submitted for reimbursement were generated in compliance with the TRS rules, or are not likely the product of fraudulent activities, the Commission has directed NECA to withhold payment until further investigation of the minutes can be conducted.

With respect to controlling and managing IT projects in such a way that they will be consistent with e-government principles, are completed on schedule and within budget, and provide the functionalities expected when the projects were started, the Commission has taken several important steps in FY 2009.

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

Through our implementation of an effective e-government infrastructure, the Commission is focusing on three critical IT areas: governance, common systems, and technical infrastructure to improve management of IT projects.

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

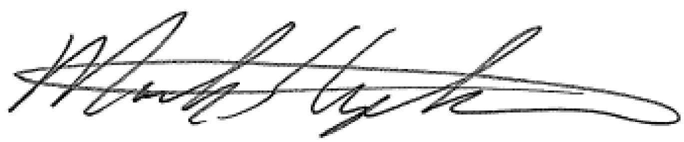
With respect to maintaining effective financial management until the new core financial accounting system is fully implemented, the Commission has taken several important steps. The Commission has approached the replacement of its core financial management system as an opportunity to deliver on its strategic goal of modernizing the Commission, improving the efficiency and effectiveness of financial operations, and to replacing disparate financial systems with a single integrated financial system. The Commission released its solicitation for proposals for a new core financial system at the end of FY 2007. During FY 2008, the Commission selected a vendor to supply the new core financial system and provide integration services. The Commission also selected a vendor to assist with change management, data clean up, and improvements to business process flows as it moves to the new core financial system. During FY 2009, the Commission worked diligently with the selected vendor on the initiation, requirements, design, development, and testing phases of the project. In FY 2010 the Commission plans to complete the deployment of the new financial system and to go live with a new financial system in October 2010. Also in FY 2010 the Commission plans to work closely with its reporting component’s in their efforts to modernize their financial systems. In the meantime, the Commission has worked to strengthen its existing financial controls through risk assessments and closing audit findings, and as mentioned above has significantly strengthened its oversight of the financial operations of its reporting components.

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

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

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

Steven VanRoekel, Managing Director
Office of Managing Director



Mark Stephens, Chief Financial Officer
Office of Managing Director