



# **FEDERAL COMMUNICATIONS COMMISSION**

## **Fiscal Year 2008 Performance and Accountability Report**

(October 1, 2007 – September 30, 2008)

# Table of Contents

<i>Section Title</i>	<i>Page</i>
Message from the Chairman	1
1. Management's Discussion and Analysis	3
Overview of the FCC	3
Introduction	3
About the FCC	3
FCC Mission	4
FCC Organizational Structure	4
FCC Organizational Chart	6
Component of the FCC for Financial Statement Purposes	7
Strategic Goals and Objectives	9
Strategies & Resources to Achieve Goals	9
Future Challenges	10
Fiscal Year 2008 Highlights	11
Performance Highlights	11
Financial Highlights	24
Systems, Controls, and Legal Compliance	43
2. Program Performance	47
Strategic Goal 1: Broadband	49
Strategic Goal 2: Competition	57
Strategic Goal 3: Spectrum	77
Strategic Goal 4: Media	85
Strategic Goal 5: Public Safety and Homeland Security	91
Strategic Goal 6: Modernize the FCC	99
3. Financial Statements and Auditor's Reports	111
Message from the Chief Financial Officer	111
Principal Statements	113
Consolidated Balance Sheet	113
Consolidated Statement of Net Cost	114
Consolidated Statement of Changes in Net Position	115
Combined Statement of Budgetary Resources	116
Consolidated Statement of Custodial Activity	117
Notes to the Principal Financial Statements	119
Required Supplementary Information	140
Independent Auditor's Report	141
Commission's Response to Independent Auditor's Reports	159

4. Other Accompanying Information	163
Summary of Financial Statement Audit	163
Summary of Management Assurances	163
Improper Payments Information Act Reporting Details	164
Office of the Inspector General's Summary of Management Challenges	169
Commission's Response to Inspector General's Management Challenges	173


# Message from the Chairman

It is my great pleasure to present the Federal Communications Commission's (Commission) Fiscal Year 2008 Performance and Accountability Report. This report combines the Commission's performance and financial reporting in one document, and the information presented within is reliable and complete.

We are continuing to work hard to promote the deployment of broadband services, deregulate where competition exists, enhance public safety and homeland security, ensure the viability of the Universal Service Fund, promote the efficient use of spectrum, and review media regulation to foster competition and diversity. We are also continuing to inform and educate consumers about the coming transition to digital television (DTV). In addition, we are continuing to develop plans to ensure the Commission has the tools and training necessary to accomplish our goals and mission. The attached performance report discusses these efforts to meet our six strategic goals: Broadband, Competition, Spectrum, Media, Public Safety and Homeland Security, and Modernize the Commission. I am very proud of our efforts this year and throughout my tenure as Chairman.

As I have said in the past, it is important that the Commission run a tight fiscal ship and adhere to strong accounting and financial management practices and procedures. The investments we have made to improve the Commission's financial management continue to pay off. As a result, I am pleased to announce that, for the third straight year, the Commission has received an unqualified audit opinion. The independent auditor's opinion addresses more than \$400 million in operating expenses, over \$8 billion in program costs for the Universal Service Fund, Telecommunications Relay Service Fund, and North American Numbering Plan, and over \$19 billion in revenue gained from the auction of spectrum in FY 2008. In this year's report, we have also enhanced the Commission's financial disclosures by providing additional information about the Commission's operations, including its financial operations and contracting actions.

Despite the progress made over the past year, much work remains to be done, most notably the deployment of a new core financial system, which the Commission will continue work on throughout the coming fiscal years. For example, the independent auditor noted an issue involving the Universal Service Administrative Company's failure to properly implement certain accounting instructions from the Commission. We have already initiated corrective action and will continue to maintain strong oversight to ensure the Universal Service Fund is appropriately safeguarded. We thank the Commission's Office of Inspector General and its independent auditors for working with us throughout this audit and past audits to identify and quickly address areas that need improvement. Our combined focus on accountability and performance are an integral part of maintaining a culture of effectiveness here at the Commission.



Kevin J. Martin  
Chairman

November 17, 2008

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# 1. Management's Discussion and Analysis

## *Overview of the FCC*

### **INTRODUCTION**

This Performance and Accountability Report (PAR or report) contains management, performance, and financial information about the Federal Communications Commission (FCC, Commission, or agency).

Chapter 1 presents Management's Discussion and Analysis, including: the Commission's mission; an overview of the agency's reporting structure; Fiscal Year (FY) 2008 performance, management, and financial highlights; descriptions of legal compliance, systems, and controls; summary information related to the Federal Manager's Financial Integrity Act; and potential future issues that could affect the Commission.

Chapter 2 contains the annual program performance report. Chapter 3 presents the Commission's principal financial statements for FY 2008, notes to the consolidated financial statements, and required supplementary information. Chapter 4 includes other accompanying information, such as management challenges and details on reporting improper payments pursuant to the Improper Payments Information Act. Appendix A contains a glossary of acronyms used in this report.

This PAR is a guide to key Commission initiatives and activities for FY 2008 that depicts the breadth of the Commission's work. An electronic version of the FY 2008 PAR can be found on the Commission's website at: <http://www.fcc.gov/omd/strategicplan/>.

### **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 list of Commissioners during FY 2008 was the following:

- Chairman Kevin J. Martin
- Commissioner Michael J. Copps
- Commissioner Jonathan S. Adelstein
- Commissioner Deborah Taylor Tate
- Commissioner Robert M. McDowell



Commissioner Tate, Commissioner Copps, Chairman Martin, Commissioner Adelstein, Commissioner McDowell - January 2008

### ***FCC 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.”<sup>1</sup> 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 communications.”<sup>2</sup>

### ***FCC 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 2008 were:

- Consumer & Governmental Affairs Bureau
- Enforcement Bureau

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<sup>1</sup> 47 U.S.C. § 151.

<sup>2</sup> *Id.*

- 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.<sup>3</sup>

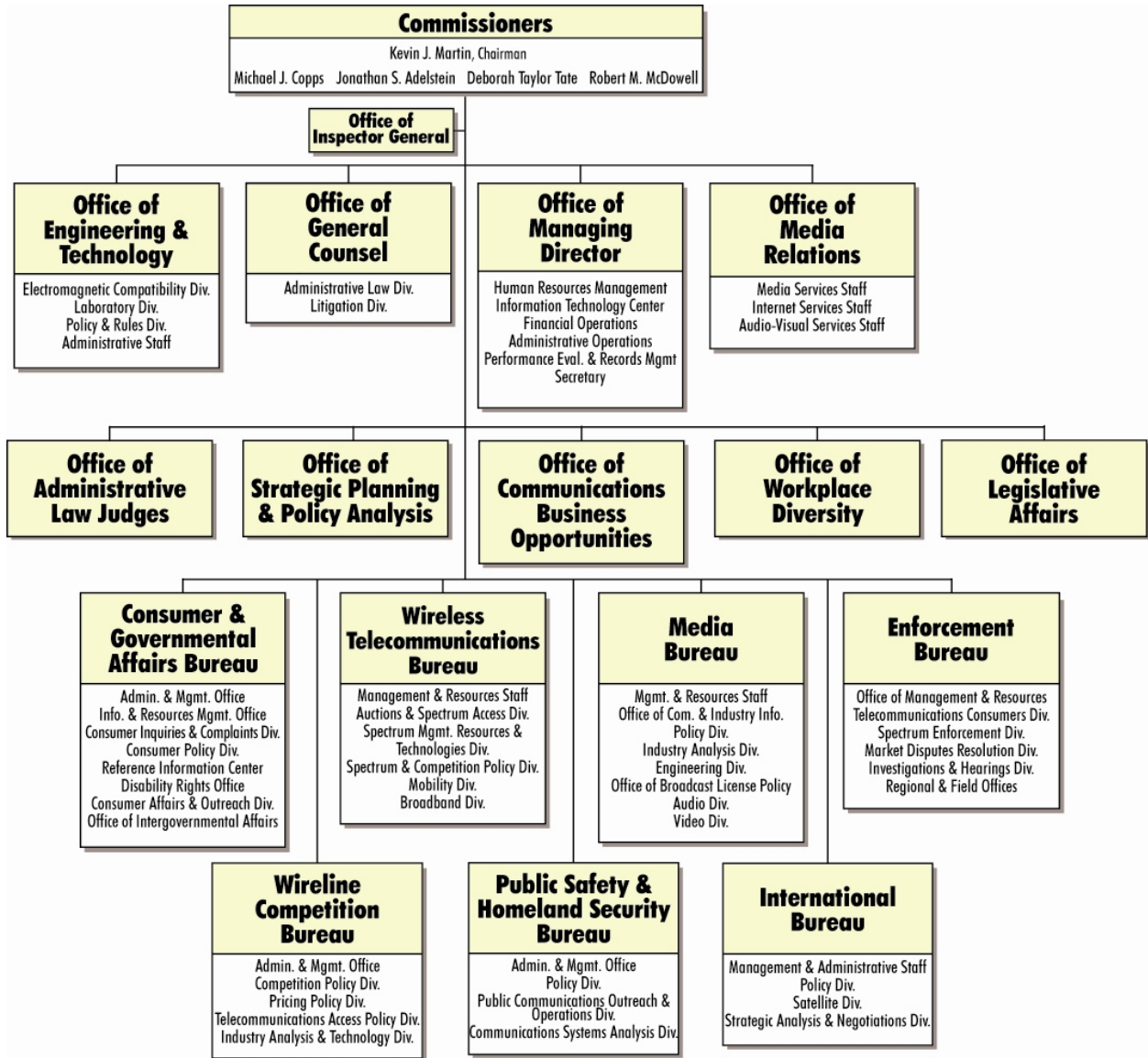
Detailed information on specific bureau and office responsibilities can be found both in Title 47 of the Code of Federal Regulations and on the Commission's website at: <http://www.fcc.gov/>. The Commission's organizational chart follows on the next page.

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<sup>3</sup> See 47 C.F.R. § 0.5 et seq.



**FCC ORGANIZATIONAL CHART**



## ***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.<sup>4</sup>

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.<sup>5</sup>

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 2008, the USF accounted for approximately \$7.9 billion on the Commission's financial statements. Additional information on USAC and the USF, respectively, can be found at the following websites: <http://www.usac.org> and [http://www.fcc.gov/wcb/tapd/universal\\_service/welcome.html](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 2008, TRS accounted for approximately \$715 million on the Commission's financial statements. Additional information on NECA and TRS can be found at the following websites: <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 2008, NANP accounted for approximately \$4.8 million on the

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<sup>4</sup> 47 U.S.C. § 254.

<sup>5</sup> 47 U.S.C. § 225.

Commission's financial statements. Additional information on NANPA and the Billing and Collection Agent can be found at the following websites:

<http://www.nanpa.com/>;

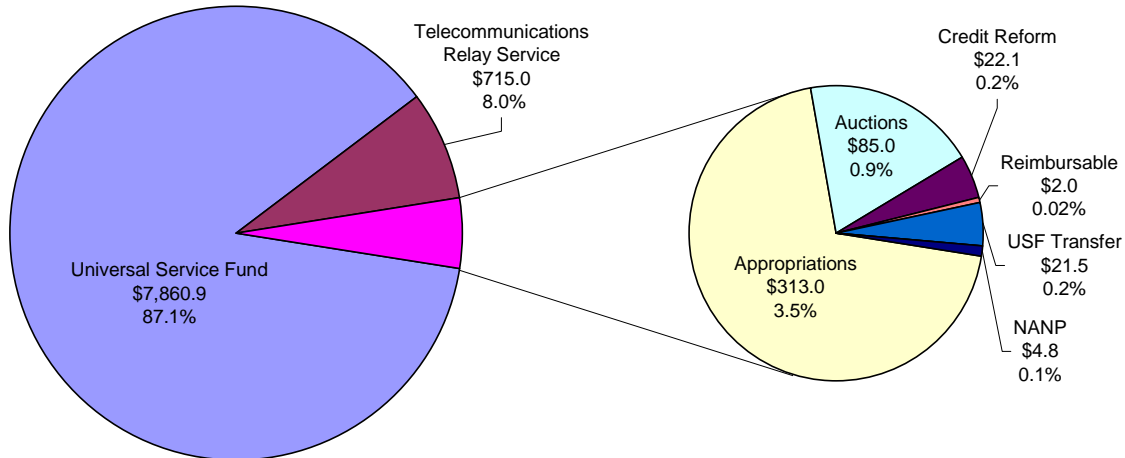
<http://nanpfund.com/TheNANP/nanpfund.html>; and

<http://www.fcc.gov/wcb/cpd/numbering/>.

For further clarification on the financial relationships between the Commission and these components, see Note 1 of the financial statements in Chapter 3. Also, see the chart below which shows the relative size of the component funds in comparison to the Commission.

**FY 2008 Sources of New Available Funds**  
**(\$ in Millions)**

Total Amount for FY 2008 - \$8,996 million



1. The Appropriations figure of \$313 million in the chart above reflects a direct appropriation of \$1 million and authority for the Commission to collect \$312 million in regulatory fees. Not depicted in the above chart are approximately \$19 billion collected by the Commission in FY 2008 for Auctions, \$22.2 million collected in Application Fees, and \$43.7 million collected in Fines and Penalties.

## **STRATEGIC GOALS AND OBJECTIVES**

Consistent with the objectives of the Act, as amended by the Telecommunications Act, as well as the 1993 Government Performance and Results Act (GPRA), the Commission has identified six long-term strategic goals in its FY 2006 - FY 2011 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 and diversity and facilitate the transition to digital modes of delivery.*
- PUBLIC SAFETY AND HOMELAND SECURITY** *Communications during emergencies and crises must be available for public safety, health, defense, and emergency personnel, as well as all consumers in need. The Nation's critical communications infrastructure must be reliable, interoperable, redundant, and rapidly restorable.*
- MODERNIZE THE FCC** *The Commission shall strive to be a highly productive, adaptive, and innovative organization that maximizes the benefit to stakeholders, staff, and management from effective systems, processes, resources, and organizational culture.*

## **STRATEGIES & RESOURCES TO ACHIEVE GOALS**

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

## ***FUTURE CHALLENGES***

In prior reports, the Commission identified certain external factors that may affect the Commission's ability to achieve its goals and objectives. These external factors remain the same and are described below.

- Market and economic uncertainties. Efficient spectrum use involves crafting proper economic incentives to relocate and continues to be challenging. Ongoing changes in the methods of delivering news and entertainment programming may introduce economic uncertainty, and thus risk, into communications markets. Economic factors may also spur consolidation within the media industries that could potentially affect competition and diversity. In addition, the transition to digital delivery modes requires significant up-front financial investment from content providers, service outlets, and equipment suppliers prior to full rollout of the technology and eventual recouping of investment. Finally, litigation over important aspects of the regulatory framework related to broadband services, local competition, and media ownership has caused market and regulatory uncertainty.
- Technology. Despite significant recent developments, further progress is needed to deploy broadband infrastructure, particularly in rural areas. Some platforms may not be suitable for deployment in certain areas of the country due to physical impediments. Mobility and personalization are major trends in communications technology today. Both are dependent on wireless growth and innovation, as well as ease of interconnection with traditional networks. Explosive growth in new technologies — particularly handheld and wireless devices — has driven demand for new spectrum allocations. Increasing demand for spectrum requires new management techniques to allocate, assign, and use spectrum more efficiently and effectively. Integration of technology platforms makes the transition to digital television and radio technologically challenging and requires coordination among various industries. Finally, today's interconnected communications technologies are subject to an increasing number of threats – natural, man-made, physical and cyber.
- Consumer Demand. From the consumer's perspective, the retail price of broadband services relative to other services, such as dial-up Internet access, has likely affected adoption decisions, despite the availability of packages offering bundled broadband and other services.
- International Developments. Due to the globally interconnected nature of many communications technologies, fully competitive communications markets in the U.S. may depend in part on whether other nations also promote deregulation, competition, and increased private investment in their communications infrastructure. Moreover, while the globally interconnected nature of many of today's communications technologies contributes significantly to the growth of the U.S. economy, that interconnection also exposes networks to a wider variety of threats.
- Resources. The Commission's ability to achieve its vision is largely dependent on the allocation of resources to carry out its critical activities. The Commission must maintain highly trained, expert staff capable of assessing and understanding technological and industry trends and enforcing technical requirements with up-to-date technological tools.

# *Fiscal Year 2008 Highlights*

## **PERFORMANCE HIGHLIGHTS**

The Commission assesses the achievement of its performance, with regard to the Government Performance and Results Act (GPRA), through the accomplishment of its performance goals. Progress toward accomplishing these performance goals is measured by the progress and completion of various programs and efforts during the fiscal year. There are external influences, including economic, legal, and organizational factors, beyond the Commission's programs and efforts that may influence whether the Commission fully meets every performance goal. Information about these factors is highlighted in the FCC's Strategic Plan, which can be found at: <http://www.fcc.gov/omd/strategicplan>.

In FY 2008, the Commission made significant progress toward accomplishing its nineteen performance goals. Greater detail on these accomplishments is found in Chapter 2 of this report. Below are some performance highlights of the Commission's major initiatives over the past fiscal year organized by Strategic Goal.

### ***BROADBAND – FY 2008 Strategic Goal Accomplishments:***

- **Broaden the deployment of broadband technologies:**
  - As of June 2007, subscribers to high-speed services were present in more than 99% of the zip codes in the U.S. There were 100.9 million high-speed lines in service, a 22% increase in just six months from the end of 2006. More than 65.9 million of these were assigned to residential subscribers. ADSL high-speed lines increased during the first six months of 2007 by 8%, to 27.5 million lines, while high-speed cable modem service lines increased by 7% to 34.4 million lines. High-speed lines are defined as delivering services at speeds exceeding 200 kbps in at least one direction, while advanced services lines deliver services at speeds exceeding 200 kbps in both directions.
  - Launched the Rural Health Care Pilot Program by selecting 69 participants covering 42 states and three U.S. territories to be eligible to receive funding for the construction of state or regional broadband networks.
  - Adopted a *Third Further Notice of Proposed Rulemaking* that proposes licensing the 700 MHz D Block spectrum as part of a revised 700 MHz Public/Private partnership that seeks to maximize the public safety and commercial benefits of a nationwide, interoperable broadband network in the 700 MHz band.
  - Participated in Regional Educational Workshops on Rural Broadband across the country to provide information on broadband technologies and on the use of license-exempt devices to provide broadband access.
  - Clarified the eligibility requirements for compensation from the Interstate Telecommunications Relay Service (TRS) Fund for providers of Internet-protocol-captioned telephone service (IP CTS).
  - Revised the broadband consumer fact sheet to include more suggestions for consumers on how broadband can be obtained.
  - Worked in various international venues to advance the Commission's agenda for broadband by participating in staff level discussions with international policy makers.
- **Define broadband to include any platform capable of transmitting high-bandwidth intensive services, applications, and content:**

- Improved broadband data collection by amending the Commission's Form 477 to gather more precise information about broadband deployment and subscribership generally, and about mobile wireless broadband in particular.
- Participated with industry groups in discussions about broadband definition and metrics at Organisation for Economic Cooperation and Development (OECD) meetings.
- **Ensure harmonized regulatory treatment of competing broadband services:**
  - Promoted broadband infrastructure deployment through rulemaking activities and merger approvals.
  - Sought comment on several petitions regarding the intercarrier compensation obligations applicable to IP-enabled services that utilize the public switched telephone network.
  - Conducted rulemakings and sought comments to clarify and improve the rules governing the TRS fund, including resolving issues concerning Internet-based forms of TRS.
  - Continued to monitor the compliance of VoIP providers with the Commission's E911 rules.
  - Involved in discussions about harmonizing regulatory treatment for competing broadband services in several international venues.
- **Encourage and facilitate an environment that stimulates investment and innovation in broadband technologies and services:**
  - As a result of the 700 MHz Auction, raised a record of nearly \$19 billion in winning bids, advanced new wireless open platform policies, created opportunities for new entrants and small businesses both nationwide and in rural markets. Non-nationwide incumbents showed significant interest in rural areas. 75 new players won licenses to serve 305 rural areas of the country (428 Rural Service Area licenses in total). Winners in these markets will provide increased access to broadband and greater choice in wireless service for consumers living in rural areas.
  - Adopted a *Further Notice of Proposed Rulemaking* that proposes public access to free, nationwide, high-speed wireless broadband Internet services using a portion of the 2.1 GHz AWS spectrum.
  - Held two public *en banc* hearings on broadband network management practices, in Cambridge, Massachusetts and at Stanford University, in response to petitions regarding Internet management policies.
  - Released the *Comcast Network Management Practices Order*, which affirmed the Commission's authority to protect the open and vibrant character of the Internet, laid out a framework for adjudicating disputes, and concluded that Comcast's management of its broadband Internet networks contravenes Federal policies.
  - Released an *Order* setting forth auction rules for unassigned broadband radio service spectrum and sought comment on ways to license education broadband service spectrum in the future.
  - Released an *Order* adopting changes to the Commission's radiated power rules for the broadband Personal Communications Service and Advanced Wireless Service-1 bands that will accommodate more flexible uses of broadband technologies.
  - Processed 100% of all broadband inquiries and informal complaints upon receipt.
  - Responded to all requests for data on broadband complaints and inquiries within seven days.

***COMPETITION – FY 2008 Strategic Goal Accomplishments:***

- **Promote access to telecommunications services for all Americans:**

- The percentage of U.S. households living in zip codes served by three or more wireline local exchange carriers has climbed from 67% in 2000 to 93% in June 2007. Similarly, the percentage of the U.S. population living in counties served by three or more wireless carriers has climbed from 91% in 2000 to 98% in June 2007.
- The consumer price for telephone services has declined by .81% over the last decade when compared to the price of other goods and services, which has increased by 34.07%. The average price per wireless minute of use per month for mobile telephone service has fallen from 18 cents in 2000 down to seven cents per minute in 2006. The average international calling rate for U.S. consumers fell from 51 cents per minute in 1999 to 10 cents per minute in 2006.
- As part of the Commission's efforts to promote universal access to communications services by fostering competition, improved the administration and operation of the Federal Universal Service Fund (USF), including the following actions:
  - Revised and improved the Commission's Memorandum of Understanding (MOU) with the Universal Service Administrative Company (USAC) with key changes focusing on procurement improvements, information security practices, safeguarding confidential information, and loss of service notification
  - Issued a *Notice of Inquiry* seeking recommendations on ways to prevent or reduce improper payments. In the *NOI*, the Commission is also seeking comment on ways to further strengthen management, administration and oversight of the USF, how to define more clearly the goals of the USF, and to identify any additional quantifiable performance measures that may be necessary or desirable.
  - Directed USAC to take steps to prevent or reduce improper payments, including linking executive compensation to improper payment reduction, requiring increased public transparency into USAC payments, and directing USAC to strengthen its internal controls.
  - Conducted oversight of USAC and sent USAC over 30 separate pieces of correspondence in FY 2008 providing direction on following up on audit findings, procurement activities, and USAC's operations. In particular, the Commission requested that USAC make improvements in the areas of executive compensation based on performance, customer service quality standards, and transparency in contracting actions.
  - Required USAC to improve the quality of service provided to stakeholders. Specifically, USAC must provide the Commission with a monthly complaints report.
  - Initiated corrective action efforts in response to the results of the Office of Inspector General's audit program for USF which included 459 audits of USF program participants.
  - Adopted an interim cap on high-cost support to competitive eligible telecommunications carriers pending comprehensive reform of the high-cost support mechanism.
  - Released three *Notices of Proposed Rulemaking* seeking comment on comprehensive reform of the high-cost universal service support mechanism.
  - Enforced the Commission's rules against carriers that failed to comply with the USF rules.
- The Commission took steps to improve the management, administration and oversight of the Telecommunications Relay Service Fund (TRS).
  - Directed the administrator of the TRS Fund, the National Exchange Carrier Association, Inc. (NECA), to improve its internal controls.
  - Initiated a procurement to select, through competitive procurement procedures, an Administrator of the TRS Fund. By engaging in a competitive procurement process, the Commission intends to improve and strengthen the management, administration, and oversight of the \$800 million TRS Fund.
- Undertook numerous actions to improve access to communications services for persons with hearing and speech disabilities, including releasing new cost recovery methodologies for TRS; expanding hearing aid compatibility rules; seeking comment on additional applications of the TRS fund to other disabilities; and taking 23 enforcement actions, imposing forfeitures totaling more



- than \$575,000, to ensure that carriers complied with their obligations to make hearing aid-compatible handsets available to their customers
- Enforced the Commission's equipment marketing rules to ensure compliance, including enforcement actions totaling more than \$160,000.
- **Ensure that American consumers can choose among multiple reliable and affordable communications services:**
    - Released an *Order* ensuring that interconnected VoIP customers have the same ability to keep their telephone number when changing telephone service providers as customers of traditional telephone service.
    - Continued efforts to promote local competition by seeking comment on a variety of forbearance petitions, extending statutory deadlines to ensure adequate time for comment and analysis, and refreshing the record in outstanding dockets in order to reflect recent marketplace and industry developments.
    - Processed a substantial number of requests for transfer of control of authorizations, including the following examples:
      - Reviewed over 2,505 transfer of control or assignment of license applications involving 25,253 call signs in the wireless radio services. 88% of these applications were resolved within 90 days, and 99% of transfer-of-control or assignment applications were resolved within 12 months.
      - Processed 1,197 spectrum lease applications involving 3,061 licenses in the wireless radio services. Of these applications, 98% were resolved within 90 days, and 99% of spectrum lease applications were resolved within 12 months.
      - Acted upon several major transfer or control requests, including approving the application of XM Satellite Radio Holdings, Inc. and Sirius Satellite Radio, Inc. to transfer control of the licenses and authorizations held by the companies as in the public interest.
    - Acted upon 276 international section 214 applications filed in connection with the provision of international telecommunications services to and from the United States. 98% of the streamlined applications were processed within the Commission's speed-of-disposal goals.
    - Processed 1,667 earth station applications in an average of 58 days, and 179 space station applications were processed in an average of 118 days.
    - Adopted rules to prohibit franchising authorities from unreasonably refusing to award competitive franchises for the provision of cable services, and banning the use of exclusivity clauses for the provision of video services to multiple dwelling units or other real estate developments.
    - Submitted the Twelfth Annual Report to Congress on the state of competition in the commercial mobile radio services.
  - **Promote pro-competitive and universal access policies worldwide:**
    - Supported participation of Commission officials in bilateral, regional, and international consultations with officials from a number of countries, including China, Singapore, Canada, Korea, India, Mexico, Sweden, Germany, and the United Kingdom, to discuss U.S. policies on competition, convergence, spectrum management, 3G, and media issues, including the digital broadcasting Internet protocol TV (IPTV), the digital television transition, and cable television a la carte policies.
    - Participated in meetings across the radiocommunication (ITU-R), telecommunication (ITU-T) and development (ITU-D) sectors of the International Telecommunication Union (ITU) to foster pro-competitive policies in foreign markets and promote universal service.

- **Work to inform American consumers about their rights and responsibilities in the competitive communications marketplace:**
  - Continued comprehensive consumer education and outreach programs to provide consumers with information about the transition from analog to digital (DTV) and to help them better understand new technology, terminology and products.
  - Released a *Report and Order* amending the Commission's rules to require sellers and/or telemarketers to honor registrations with the National Do-Not-Call Registry until the registration is either cancelled by the consumer or the telephone number is removed by the database administrator.
  - Released an *Order* that modified the slamming rules regarding the content of independent third party verifications of a consumer's intent to switch carriers. Specifically, third party verifications must now include the date of the verification and confirmation that the person on the call understands that a carrier change is being authorized.
  
- **Enforce the Commission's rules for the benefit of consumers:**
  - Issued 491 citations, 51 Notices of Apparent Liability totaling \$8,335,000, and ten forfeiture orders totaling \$4,050,000, against violators of the Junk Fax Protection Act.
  - Issued 438 citations, and four Notices of Apparent Liability totaling \$70,000, for violations of the do-not-call registry rules and company-specific do-not-call requirements.
  - Entered into a \$500,000 Consent Decree with NOS Communications, Inc. for violations of the do-not-call rules and requirements. Issued 309 citations, and two Notices of Apparent Liability totaling \$22,500, for prerecorded advertising violations.
  - Issued a proposed forfeiture of \$5,084,000 against Horizon Telecom, Inc. for its apparent violations of sections 201(b) and 258 of the Communications Act, and the Commission's informal complaint and slamming rules.
  - Issued four Notices of Apparent Liability in the total amount of \$400,000 for customer proprietary network information (CPNI) related apparent violations, and entered into two consent decrees totaling \$450,000 for CPNI-related violations. Issued two \$4,000 forfeiture orders against entities for failing to respond to Commission directives in CPNI-related investigations.
  - In conjunction with a joint Department of Justice/Enforcement Bureau investigation, the Bureau adopted a consent decree relating to compliance by ALLTEL with terms and merger conditions that resulted in ALLTEL agreeing to pay the government an amount totaling \$1.235 million.
  - Issued an *Order* granting a complaint against ISS alleging failure to comply with Commission payphone rules that requires ISS to pay damages in the amount of \$574,073.
  - Met the goal to resolve public safety interference complaints within one day; achieved over 95% compliance with the goal of resolving non-emergency interference complaints within one month; resolved only 3.91% of indecency complaints within the goal of nine months; and achieved 80% compliance with resolving formal complaints within one year. Finally, the Commission achieved 97.97% compliance with resolving all other investigations and complaints within 15 months.

***SPECTRUM – FY 2008 Strategic Goal Accomplishments:***

- **Ensure that the Nation's spectrum is used efficiently and effectively:**
  - Conducted an auction of 1,090 commercial licenses for significant amounts of spectrum in the 700 MHz band made available for use as a result of the DTV transition. As a result of the 700 MHz Auction, raised a record of nearly \$19 billion in revenue, advanced new wireless open

platform policies, and created opportunities for new entrants and small businesses both nationwide and in rural markets.

- Adopted an *Order* to revise the technical rules for the broadband Personal Communications Service and Advanced Wireless Service that included rule changes that are more technologically neutral, and will better accommodate broadband technologies, especially in rural areas.
  - Continued to actively oversee the implementation of 800 MHz rebanding which commenced in June 2005. Provided direction to the 800 MHz Transition Administrator, particularly regarding the resolution of disputes, and worked with Sprint-Nextel and public safety stakeholders to address implementation issues.
  - Adopted an *Order* revising the ownership, eligibility and technical rules for Low Power FM service in an effort to strengthen long-term viability and promote the growth of the service.
  - Continued work regarding the use of new low power devices in the television broadcast bands on channels not being used for authorized services, also known as TV White Spaces, including adopting an *Order* that would permit fixed low power devices to operate in these bands.
  - Actively participated with the National Telecommunications and Information Administration (NTIA) and Federal agencies regarding implementation of the President's Spectrum Policy Initiative.
  - Investigated more than 1,175 complaints of unauthorized harmful interference and entered into interference related consent decrees totaling approximately \$19.6 million.
  - Took enforcement actions, which proposed forfeitures totaling over \$94,000, assessed forfeitures totaling over \$50,000, and resulted in voluntary contributions totaling over \$32,000, for the unauthorized operation of facilities and for the failure to file timely renewal applications.
  - In consultation with the Rural Utilities Service of the U.S. Department of Agriculture (USDA), undertook numerous activities aimed at assisting rural communities in deploying wireless broadband networks in their communities, including organizing Rural Broadband Workshops and launching a new online web resource.
  - Reviewed space station licensees' compliance with system implementation milestones and revoked licenses where necessary to make unused spectrum available to new applicants.
  - Conducted the following licensing and equipment authorization activities, including:
    - Processed approximately 432,000 applications and notifications relating to wireless services; approximately 90 percent were processed in 30 days or less.
    - Processed approximately 18,000 applications for all broadcast services.
    - Coordinated 9,243 non-government frequency assignments and 69,967 federal agency assignments with NTIA.
    - Granted more than 9,100 new equipment authorizations.
    - Granted 206 individual earth station applications in an average of 58 days.
    - Granted 179 space station applications in an average of 118 days.
    - Granted 20 new blanket authorizations, including VSATs, Earth Stations on Vessels (ESVs), AMSS, and METs.
    - Granted eight authorizations to secondary and non-conforming users.
    - Granted 17 modification applications authorizing space station operators to relocate licensed satellites and provide service to U.S. customers from the requested orbital locations.
    - Authorized five foreign-licensed satellites to provide satellite services in the United States.
  - Held three spectrum auctions in FY 2008 with revenues of close to \$19 billion dollars. Over 1,100 licenses were won by over 100 bidders with approximately 36% of the licenses going to small businesses and new entrants.
- **Advocate US spectrum interests in the international arena:**
    - Participated in the ITU-R World Radiocommunication Conference 2007 (WRC-07) and assisted in developing and coordinating proposals for twenty-eight WRC-07 agenda items with NTIA, the

State Department, and private industry. Made significant progress in securing international spectrum allocations for new services and protecting incumbent services from interference.

- Worked to advance U.S. spectrum policies in international working groups addressing satellite, terrestrial, and unlicensed devices (*e.g.*, Wi-Fi, Ultrawideband).
- Worked to secure spectrum and minimize interference through advocacy in bilateral, regional, and international consultations, coordinations, and study groups, including bilateral consultations with the European Commission.

### ***MEDIA – FY 2008 Strategic Goal Accomplishments:***

- **Facilitate the transition to digital television and further the transition to digital radio:**

- As of August 31, 2008, 1,813 full power television stations had DTV channels. Of those, nearly 56% (1,012 stations) have completed their post-transition digital facilities. Thirty-eight percent (688 stations) have filed status reports or otherwise indicated that they are on track to complete construction by the February 17, 2009 deadline. Approximately 5 percent (97 stations) will take advantage of the flexibility offered by the Commission in the *Third DTV Periodic Review Report and Order* and will be serving at least 85 percent of their service population on February 17, 2009, with final operations beginning sometime thereafter.
- On September 8, 2008, Wilmington, NC became the first television market to transition from analog to digital television. Commission staff attended over 400 outreach events in the five-county Wilmington market, and distributed more than 85,000 publications. Prior to the transition, the National Association of Broadcasters released a survey indicating that 97 percent of Wilmington residents were aware of the switch to digital.
- Acted in several proceedings intended to facilitate a smooth transition from analog to DTV broadcasting, including: conducting periodic reviews to assess the progress of the transition, adopted an *Order* to ensure all satellite subscribers, including those with analog TV sets, can view broadcast television after the transition to digital television is completed, and adopted several proposals relating to consumer education about the digital television transition that require broadcasters, MVPDs, manufacturers and others to convey DTV transition information to consumers through the end of the transition.
- Undertook a substantial consumer education and outreach program to provide consumers with information about the DTV transition, including the following:
  - Announced a tour of 81 cities nationwide plus Puerto Rico to increase awareness about the upcoming transition to digital television. The Commission identified television markets in which the largest number of viewers will have to take action to be prepared for the transition three months from now. Specifically, the Commission identified 81 target television markets for specific DTV outreach, including all those markets in which more than 100,000 households or at least 15 percent of the households rely solely on over-the-air signals for television. Within these markets, the Commission is aiming to educate those groups most vulnerable to the transition such as senior citizens and non-English speakers. The Chairman and all of the Commissioners, as well as other Commission staff, will fan out to these markets to raise awareness and educate consumers in the days leading up to the digital television transition on February 17, 2009.
  - The Commission's DTV-related web sites, including <http://www.dtv.gov>, recorded nearly 36 million hits during the past year. The [dtv.gov](http://www.dtv.gov) website serves as a central location for consumers, DTV partners and media outlets to find information about the transition.
  - Created new DTV publications and updated existing materials to reflect recent developments and consumer feedback.

- Commission staff made multiple visits to all 50 states, as well as the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, to speak regarding the transition.
  - Hosted seven DTV Workshops with each event addressing unique issues or communities, such as seniors and minorities.
  - Conducted media outreach in order to achieve coverage for the DTV transition by local and national media including those media outlets that address targeted audiences. A television satellite media tour conducted in February had more than one million audience impressions. Radio public service announcements were distributed to full-power radio stations nationwide and outdoor billboards were posted in 19 markets.
  - Secured Congressional approval to use \$12 million in prior year funds to supplement the Commission's FY 2008 DTV outreach budget of \$2.5 million.
  - Continued to implement existing DTV Memoranda of Understanding with Canada and Mexico to coordinate cross-border operations.
  - Met extensively with foreign regulators to exchange information on experiences with the Digital Television transition, and provided technical assistance for migration to DTV for developing countries.
- **Reevaluate media ownership rules in light of a changing marketplace and judicial review:**
    - Pursuant to section 202(h) of the Telecommunications Act of 1996, completed a careful review of the media ownership rules in light of the evolving media landscape.
    - Adopted a *Report and Order* containing a number of measures to increase participation in the broadcasting industry by new entrants and small businesses.
    - Issued a *Report* focusing on how broadcasters are serving the interests and needs of their local communities.
    - Conducted a Localism hearing in Washington, DC in October 2007 and a media ownership hearing in Seattle in November 2007. These were the two final public hearings building upon a series of field hearings in FY 2007. The purpose of these hearings was to gather information from consumers, industry, civic organizations, and others on Commission regulations, and competition, localism and diversity in media markets.
- **Enforce compliance with media rules:**
    - Conducted nearly 8,000 visits and gave approximately 1,000 presentations to constituent groups in 50 states and 3 U.S. territories regarding the DTV transition. Enforcement activities in the DTV area included:
      - Inspected 4,233 stores and websites and issued 369 citations notifying retailers of their violations of the Commission's rules governing labeling of analog-only television receivers.
      - Issued 15 Notices of Apparent Liability totaling \$4.5 million and five consent decrees totaling \$236,000 against retailers for possible violations of the labeling rules.
      - Issued three Notices of Apparent Liability totaling \$3.3 million and one Forfeiture Order totaling \$1.266 million for violations of the Commission's rules prohibiting the importation or interstate shipment of television receivers incapable of receiving digital signals.
      - Issued three Notices of Apparent Liability totaling \$8.8 million and 10 consent decrees totaling \$10.8 million for possible violations of the Commission's rules requiring certain V-chip technology in digital television receivers.
      - Issued one Notice of Apparent Liability in the amount of \$51,000 against a company for failing to notify its customers of the DTV transition as required under the Commission's rules.
      - As part of its efforts to assess the training of retail employees on the DTV transition and the NTIA converter box coupon program, Commission field agents visited 1,489 stores and

- conducted 1,438 interviews of store managers in 47 states and the Commonwealth of Puerto Rico.
- Entered into consent decrees with satellite radio providers XM and Sirius that provided for a total of approximately \$19.6 million in voluntary contributions to resolve apparent violations involving the unauthorized marketing of FM modulators and the unauthorized or variant operation of their terrestrial repeaters.
- Imposed Notices of Apparent Liability totaling some \$137,500 for violations of rules governing the broadcast of telephone conversations, maintenance of a main studio, station identification, sponsorship identification, transfer of control, the use of non-commercial underwriting announcements, and the conduct of station-sponsored contests.
- Issued Notices of Apparent Liability to broadcasters and cable systems for failure to maintain a complete, accessible public file totaling some \$70,000.
- Issued a Notice of Apparent Liability for more than \$1.4 million against over 50 ABC stations for carrying an NYPD Blue episode with female nudity.
- Acted on 8,720 Northbound and 2,600 Southbound wireless coordinations between the U.S. and Canada.
- Participated in the meeting of the Mixed Commission to resolve cases of interference to Commission licensees, Homeland Security, and other Federal law enforcement agencies along the U.S./Mexico border.

### ***PUBLIC SAFETY AND HOMELAND SECURITY – FY 2008 Strategic Goal***

#### ***Accomplishments:***

- **Promote the reliability, security, and survivability of the communications infrastructure:**
  - The Commission established the Telecommunications Service Priority (TSP) program to support priority restoration of communications services that support national security and emergency preparedness (NS/EP) missions during disasters, including terrorist attacks. The TSP program increases the reliability of essential NS/EP communications services by minimizing out-of-service times. In FY 2004, the Commission began an outreach program to enroll more 911 administrators into the TSP program. At the beginning of August 2007, a total of 12,905 911 call center circuits were enrolled in the TSP program. At the end of July 2008, a total of 13,384 911 call center circuits were covered by the TSP program, which amounted to a 4% increase. At the beginning of August 2007, state and local governments had 13,318 circuits enrolled in the TSP program; by the end of July 2008, a total of 14,798 state and local government circuits were covered. This change amounted to an 11% increase in covered state and local circuits. TSP enrollment for the healthcare sector rose by 63%.
  - Hosted a summit on Communications Network Surge Management in Emergencies.
  - Participated in numerous Public Safety stakeholder events to promote information about Commission activities in such areas as 700 MHz licensing and 800 MHz rebanding.
  - In consultation with the Department of State, the Office of Emergency Communications of the Department of Homeland Security, and the Office of Management and Budget, submitted a report to Congress on the status of cross border interoperability issues between the U.S. and Mexico and the U.S. and Canada.
  - Operated disaster recovery teams at headquarters and deployed Commission staff on-scene for disaster recovery for the Midwest floods, Hurricane Dolly, Tropical Storm Eduard, Tropical Storm Fay, Hurricane Gustav, Tropical Storm Hanna, and Hurricane Ike.
  - Reviewed COOP plans and developed new Mission Essential Functions for the agency.
  - Assisted in developing a realistic scenario and in managing the interagency COOP exercise in May of 2008. Received an “all green” (all good) score for the exercise.

- Reviewed over 1000 System Security and Integrity plans submitted by VoIP and other broadband Internet-based service providers subject to CALEA.
  - Worked to meet the requirements of the WARN Act through the Commission's Commercial Mobile Services Alert Advisory Committee, which issued its technical requirements on October 12, 2007. Followed this by issuing a *Notice of Proposed Rulemaking* on matters pertinent to the Commercial Mobile Alert System on December 14, 2007, and three *Reports and Orders* in April, July, and August 2008.
  - Completed a Report to Congress on back-up emergency communications as well as the Joint Advisory Committee on Communications Capabilities of Emergency Medical and Public Health Care Facilities.
  - Reviewed carrier compliance with rules for TSP for circuits that suffered an outage as a consequence of the Midwest floods in June 2008.
  - Working directly with local officials, Commission staff gathered technical data, developed models, and performed associated analysis to evaluate the performance of existing communications systems used by emergency responders during the Minneapolis bridge collapse.
  - Activated Disaster Information Reporting System (DIRS) as part of the National Level Exercise in May 2008.
  - Evaluated the inability to attract a winning bid for the D Block in the 700 MHz Auction (Auction No. 73), which closed on March 18, 2008. On May 14, 2008, the Commission sought comment on rules to establish a public/private partnership between the 700 MHz D Block licensee and the licensee of the 700 MHz public safety broadband spectrum for the purpose of constructing and operating a nationwide, interoperable public safety broadband network. Furthermore, on July 30, 2008, the Commission held an en banc hearing in Brooklyn, New York, to obtain expert testimony on the appropriate rules for the partnership and on the need for interoperable public safety networks. Finally, on September 25, 2008, the Commission adopted a *Third Further Notice of Proposed Rulemaking* that proposes licensing the 700 MHz D Block spectrum as part of a revised 700 MHz Public/Private partnership that will maximize the public safety and commercial benefits of a nationwide, interoperable broadband network in the 700 MHz band.
  - Enforced rules governing E911, resulting in contributions by four entities to the U.S. Treasury totaling \$2,850,000.
  - Investigated and resolved over 200 interference or other complaints related to public safety communications.
  - Took 28 enforcement actions regarding Emergency Alert System rules totaling \$177,000.
  - Entered into a consent decree with T-Mobile USA totaling \$250,000 to resolve possible violations of the Commission's rules regarding the reporting of network outages.
  - In conjunction with the State Department, worked to amend existing Bilateral Agreements with both Canada and Mexico to facilitate the Commission's 800 MHz transition.
  - Worked to ensure that there was no disruption in the availability of key satellite earth station facilities that are used by the Navajo Nation to provide public safety communications to its members in various locations, including Arizona and New Mexico.
  - Processed 35,469 applications and notifications for public safety-related licensing activities involving wireless services; approximately 99 percent were processed in 90 days or less.
- **Facilitate deployment of public safety technology:**
    - Wireless Priority Service (WPS) is a Federal program that authorizes cellular communications service providers to prioritize calls over wireless networks. The WPS program facilitates the deployment of public safety technology and increases the chances that critical users, such as first responders, will be able to use cell phone services in an emergency. Participation in the WPS program is voluntary. The FCC sets the rules and policies for the WPS program; the National Communications System, a part of the U.S. Department of Homeland Security, manages the WPS

program. In FY 2008, the Commission began an outreach program to increase participation in WPS. From August 1, 2007 to July 31, 2008, WPS subscribership increased from 46,142 to 80,803, an increase of 75%.

- Hosted in conjunction with the U.S. Department of Health and Human Services, a Health Care Summit on Emergency Communications, Response and Recovery.
- Hosted a summit on issues relating to the deployment and use of Next Generation 911 technology and the coordination of those efforts among the communications industry, manufacturers and Public Safety Answering Points.
- Hosted a summit focusing on communications and coordination between the health care sector, first responders, government and the communications industry in preparation for a pandemic.
- Adopted a *Report and Order* requiring wireless licensees subject to Commission-mandated standards for E911 Phase II location and reliability to satisfy these standards defined by the coverage area of a PSAP.
- Collaborated with the U.S. Coast Guard and the Department of Homeland Security on matters before the International Maritime Organization (IMO) concerning global maritime security.
- Collaborated with the State Department and NTIA to ensure that inappropriate standards were not adopted addressing applications of cell phone broadcasting for public alert systems.

### ***MODERNIZE THE FCC – FY 2008 Strategic Goal Accomplishments:***

#### **• Easier Organization to Do Business With:**

- Took unprecedented steps to inform the public about the items that the Commission is considering voting on and to obtain public input on the issues before it.
  - Listed the items on the agency's internet site that are on circulation internally to be voted on by the Commissioners ([http://www.fcc.gov/fcc-bin/circ\\_items.cgi](http://www.fcc.gov/fcc-bin/circ_items.cgi)) and updated the list weekly.
  - For the first time, made topics selected for consideration at the Commission's open meeting agendas public three weeks prior to the upcoming monthly meeting, which is two weeks additional public notice over the prior agenda notification practice of the Commission.
  - Solicited public input by conducting eight public hearings across the United States, from New York to California, to receive expert testimony on important issues before the Commission; six of the hearings were held outside of Washington, DC. These hearings included topics such as broadband network management, the future of broadband, the impact of early termination fees on consumers, overcoming barriers to financing for minority and woman owned communications businesses, public safety communications, media ownership, and localism.
  - Enhanced procurement integrity and accountability by disclosing additional contracting performance information in the Performance and Accountability Report.
- Completed the deployment of software enhancements and improvements to the software system used by the Commission to conduct auctions. Deploying these technical enhancements enabled the Commission to conduct the 700 MHz auction, which raised almost \$19 billion in auction proceeds.
- Improved the Commission's Universal Licensing System to support the electronic filing of long form applications for auctions.
- Modifications and enhancements were made to benefit the users of the Commission's Tower Construction Notification System which enables tower builders to notify federally recognized Indian Tribes.
- Updated functions in the Universal Licensing System to accommodate the data provided by the 800 MHz Band Transition Administrator and Nextel. Search functions have been developed that will allow interested parties to search vacated spectrum for possible relocation options.



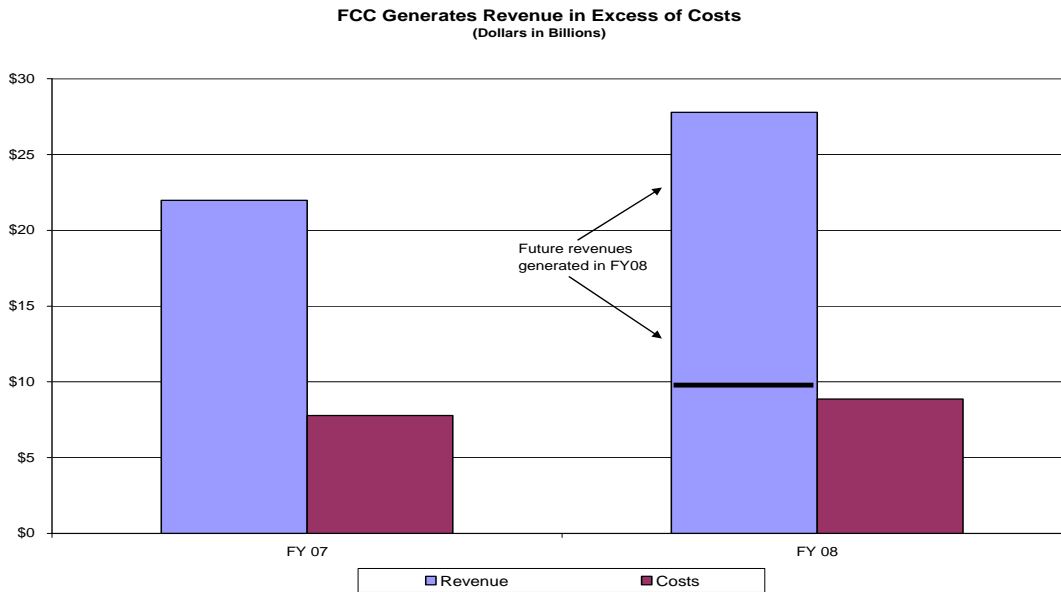
- Worked to implement an electronic filing system for section 106 compliance under the National Historic Preservation Act and the Commission's Nationwide Programmatic Agreement for new tower and collocation submissions.
  - Created an electronic submission process to verify annual compliance with the Commission's CPNI rules.
  - Upgraded the Office of the Secretary's system to ensure the Commission has a secure, reliable system for recording decisions and actions.
- **Culture That Encourages Innovation, Accountability, and Continuous Improvements:**
    - Improved the USF by reducing waste, fraud and abuse, including: performing monthly reviews of the administrative expenses of the USF administrator; reviewing all beneficiary audit reports and recommendations; working with USAC to ensure that corrective action plans were established for hundreds of audit findings stemming from Office of Inspector General audits of USF beneficiaries and contributors; directing USAC to work to change its fiscal year end to match the FCC's fiscal year end to avoid redundancy in current financial audits of USF that cover overlapping financial reporting periods; establishing a new monthly review process to ensure that the USF funds held outside of the U.S. Treasury are fully protected (collateralized) against bank default; conducting a fraud risk assessment and internal control analysis of USF; promoting the transparency of USAC's operations by requiring public disclosure of contracting actions in quarterly and annual reports; and working with USAC to improve the quality of performance measures, the quality of data gathered in response to those measures, and the usefulness of that data in monitoring and enhancing USAC's performance.
    - Improved TRS funding through monthly reviews of the administrative expenses of the TRS administrator, NECA, and conducting a fraud risk assessment and internal control analysis of TRS. The Commission directed NECA to improve and strengthen its internal controls by implementing, among other things, an internal control structure consistent with OMB Circular A-123.
    - NECA was also directed to take steps to ensure that TRS funds held outside of the U.S. Treasury are fully protected (collateralized) against bank defaults.
    - Transferred 98% of the eligible, delinquent debts owed to the Commission to the Treasury Department's debt collection service.
    - Strengthened internal controls and financial management by conducting risk assessments of its operations during the fiscal year, and working to mitigate any risks that were identified during the previous year's risk assessment process.
    - Improved collection of Application and Regulatory Fees by reducing the number of fee lockboxes from 78 to 13 resulting in savings of approximately \$390,000 a year and implementing new payment tools that improve customer service.
    - Initiated a comprehensive review of the Commission's regulatory fee structure that asks how to more fairly distribute regulatory fees among communications industry segments, and examines methods to more closely align the regulatory fee regime under section 9 of the Communications Act of 1934 (as amended) with the Commission's costs.
    - Initiated investigations into companies' compliance with the Commission's section 9 regulatory fee assessments. As a result, collected nearly \$1 million in delinquent regulatory fee assessments.
    - Exceeded contracting goals for contracts awarded to small businesses as well as for awarding contracts to Woman-owned Small Businesses and Service Disabled Veteran-Owned Small Businesses.
    - Completed a competition to provide all aspects of information technology infrastructure support that resulted in the elimination of ten contractor positions and a \$2 million savings in annual operating costs.

- In conjunction with the Office of Management and Budget conducted a Program Assessment Rating Tool (PART) Evaluation of the Commission’s overall regulatory program. The program received an “adequate” rating, with the evaluation noting that “the FCC has taken recent steps to improve its financial management controls and address audit findings,” and that the Commission “measures its performance in many areas by examining market trends.”
  - Implemented the first Human Capital Accountability and Performance Measurement System at the Commission prior to the Office of Personnel Management regulated mandate.
  - Issued first ever Succession Plan outlining leadership strategy and direction for the Commission.
  - The Commission provided 8,370 instances of staff training in FY 2008, an increase of 2.2% over the previous fiscal year. 87% of the courses were technical or business skills training, compared to 83% of courses last year. In order to meet statutory or regulatory mandates for training Commission staff, four mandatory online courses were provided during the fiscal year.
  - Continued implementation of new asset management procedures that vastly improved inventory and control of assets assigned to employees, particularly portable information technology and telecommunication devices that are easily lost or stolen.
  - Created an Information Technology Tactical plan to prioritize, track and monitor progress on all Commission information technology initiatives, from maintenance through new systems development and hardware deployment.
  - Reduced the Office of Managing Director’s (OMD) total number of outstanding audit findings by 38 percent from February 2006 to January 2007, by 39 percent from January 2007 to January 2008, and by 32% from January 2008 to October 2008. Overall, OMD has reduced its outstanding audit findings by over 77 percent in the past two and a half years and closed over 250 audit findings. The Commission as a whole closed a total of 107 recommendations during FY 2008 and has closed over 440 audit findings in the last three fiscal years.
  - Selected a vendor to supply the new core financial system and provide integration services. This contract award is important because the Commission is currently relying on a core financial management system that is becoming obsolete and will not be supported by its vendor in the long term.
- **Ensure effective communications:**
    - Provided effective administrative and communications support for the DTV transition, including printing more than eight million pages of documents to provide program outreach on the DTV Transition; attracting 6 million hits per month on the Commission’s national DTV Web site, ([www.dtv.gov](http://www.dtv.gov)); launching a dedicated mailbox ([DTVinfo@fcc.gov](mailto:DTVinfo@fcc.gov)) for DTV related concerns and inquiries; translating the basic DTV one page information sheet into 19 languages; making available upon request all Commission consumer fact sheets in accessible formats such as electronic text, Braille, audio and large print; and releasing a number of new consumer friendly DTV publications.
    - Updated consumer complaint forms to simplify filing and upgraded the Commission’s complaint processing systems to speed review and enforcement of complaints. In the first six months of 2008, the number of consumer complaints processed by the FCC increased more than 85% versus the previous six month period.

## FINANCIAL HIGHLIGHTS

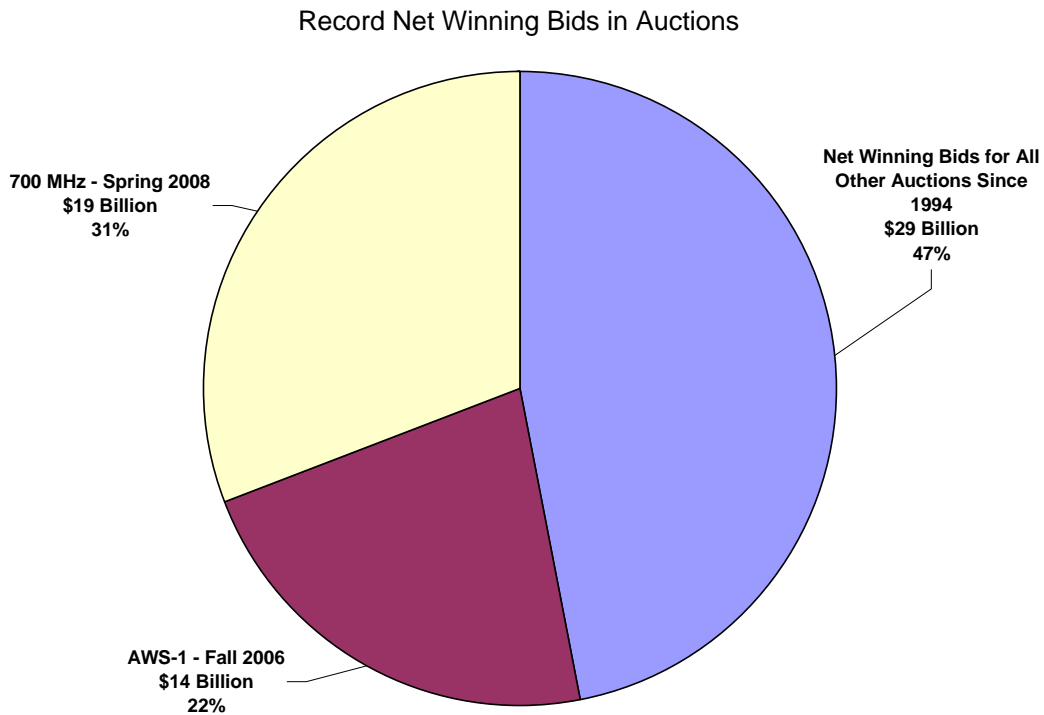
### Commission Revenues versus Costs

The FCC typically generates more revenue for the Federal government than the costs that it requires to operate the Commission. During fiscal year 2007 and 2008 revenue generated by the Commission was exceptionally high as a result of the successful auction of the Advanced Wireless Services spectrum in Auction #66 and the 700 MHz spectrum in auction #73. Revenue generated (including future revenue related to auction #73) exceeded costs by just over \$14 billion in FY 07 and by just under \$19 billion in FY 08.



**Recent Auctions Produce High Winning Bids**

In the Fall of 2006 and the Spring of 2008, the FCC received record net winning bids of \$13.7 billion in the AWS-1 auction and \$19.0 billion in the 700 MHz band auction. The net winning bids in these two auctions alone account for 53% of all net winning bids for all auctions ever conducted by the FCC dating back to Auction 1 in the summer of 1994. See chart below. For clarification, please note that net winning bids represent anticipated revenue to the U.S. Government and are converted to earned revenue as the licenses tied to the winning bid amounts are granted.

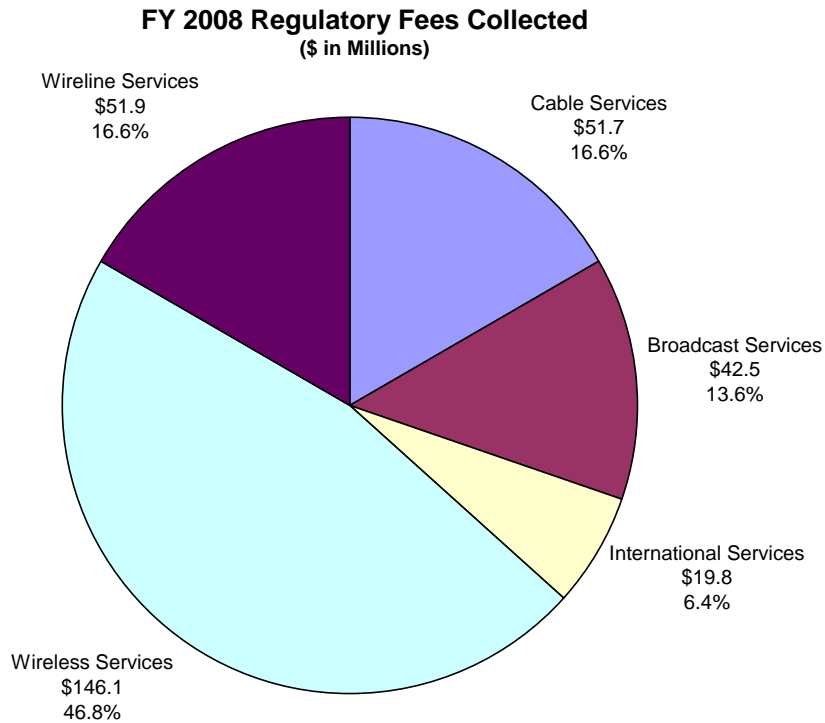


**Regulatory Fee Collections**

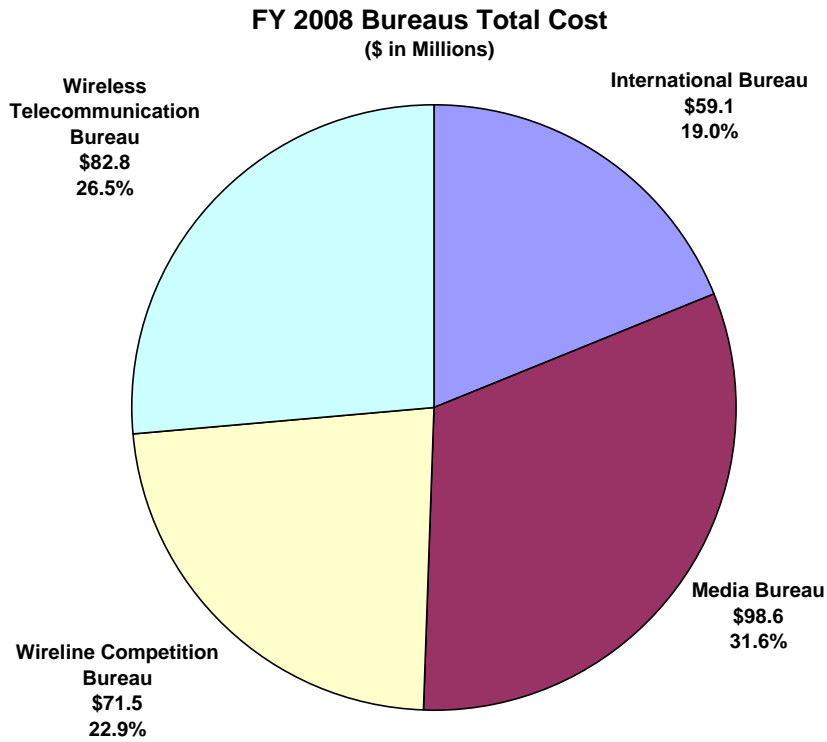
Section 6003(a) of the Omnibus Budget Reconciliation Act of 1993, P.L. 103-66, added a new section 9 to the Communications Act. The law requires that the Commission annually collect fees and retain them to offset certain costs incurred by the Commission. The fees collected are intended to recover the 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 2008, the Commission was required to collect \$312 million in regulatory fees. The Commission actually collected \$324.8 million. The Commission is prohibited from using any excess offsetting collections that it receives for the current fiscal year or prior years.

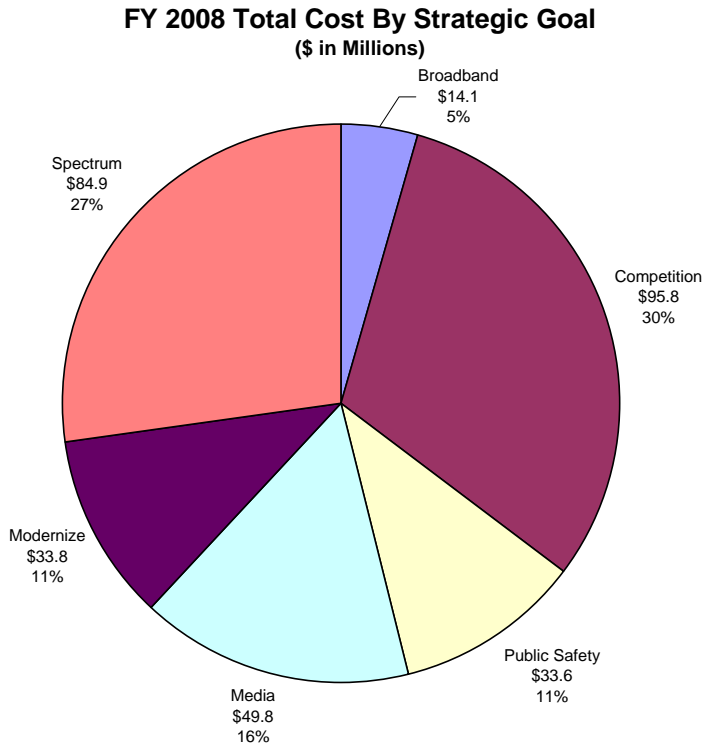
The chart below provides a breakdown of what each communication service sector was required to pay in regulatory fees to the Commission for FY 2008.



The next chart shows how the regulatory fees collected by the Commission are distributed across the Commission's Bureaus.



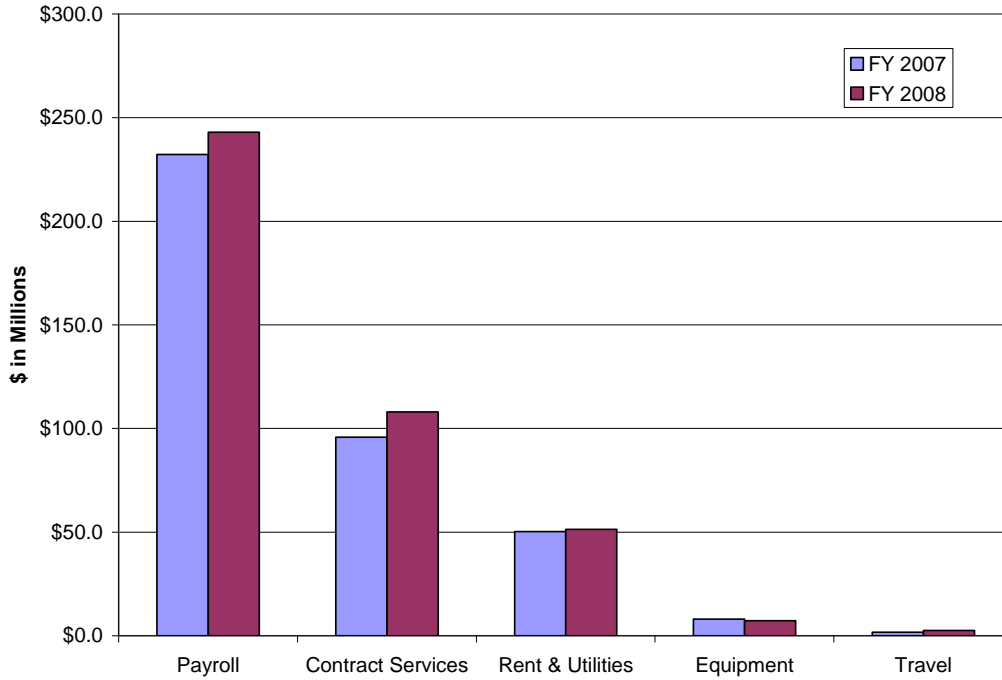
Finally, the chart below shows how the regulatory fees collected by the Commission are distributed according to the Strategic Goals of the Commission.



***Breakdown of Commission Outlays for FY 2008 Compared with FY 2007***

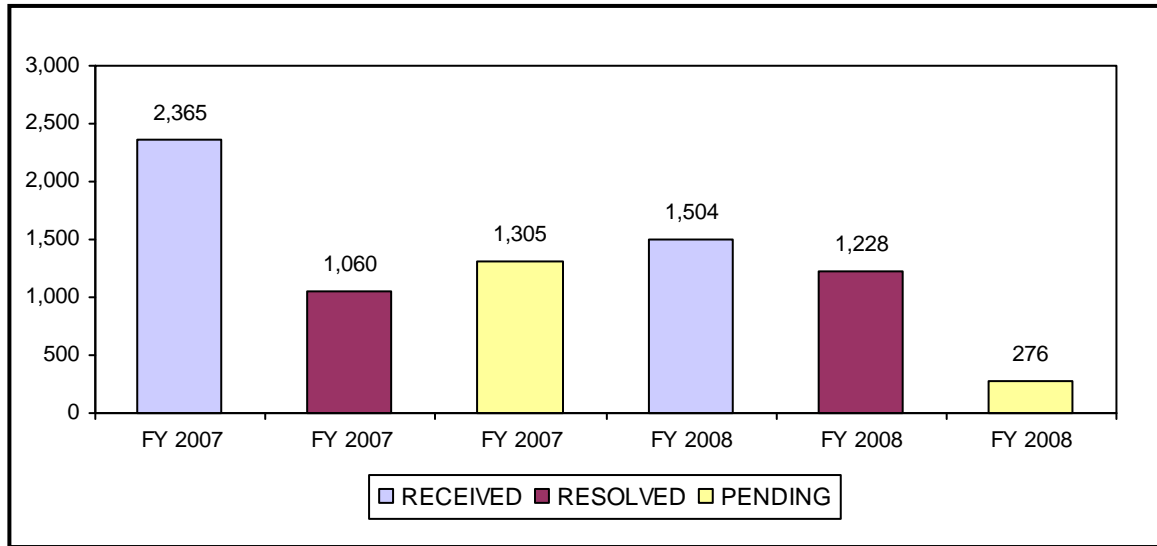
The Commission’s outlays primarily consist of payroll, contract services, and rent and utilities. The Commission’s outlays for FY 2008 equaled \$412.1 million as compared to \$387 million in FY 2007. The chart below shows how the spending breaks down across the categories mentioned above and compares FY 2007 to FY 2008.

**FY 2007 and FY 2008 Total Spending**





**Financial Payment Related Complaints and Disputes Received, Resolved and Pending FY 2007 and FY 2008**



Over the past two fiscal years, the Commission has worked to reduce the total number of complaints and disputes it receives concerning debt collection actions and regulatory fee payments. During FY 2007, the total number of complaints and disputes received was 2,365 as opposed to FY 2008 when the Commission received 1,504. This drop represents a decrease of over 36% from one year to the next. In addition, the Commission worked to ensure that as few complaints as possible were pending at the end of the fiscal year. At the end of FY 2007, there were 1,305 items pending as opposed to FY 2008 when there were 276 items pending. This drop represents a decrease of almost 79% from one year to the next. Finally in working to ensure that complaints were resolved, the Commission improved its overall percentage of complaints resolved from 44.8% for FY 2007 to 81.6% for FY 2008, a more than 82% improvement.

### *Transparency in Contracting*

In an effort to continue to promote transparency in Federal spending, the Commission includes below a list of the Commission's top twenty-five vendors by the amount that the Commission obligated those vendors during FY 2008. Also included is a brief description of the services that were provided by those vendors.

#### *Top 25 Vendors to Commission During FY 2008*

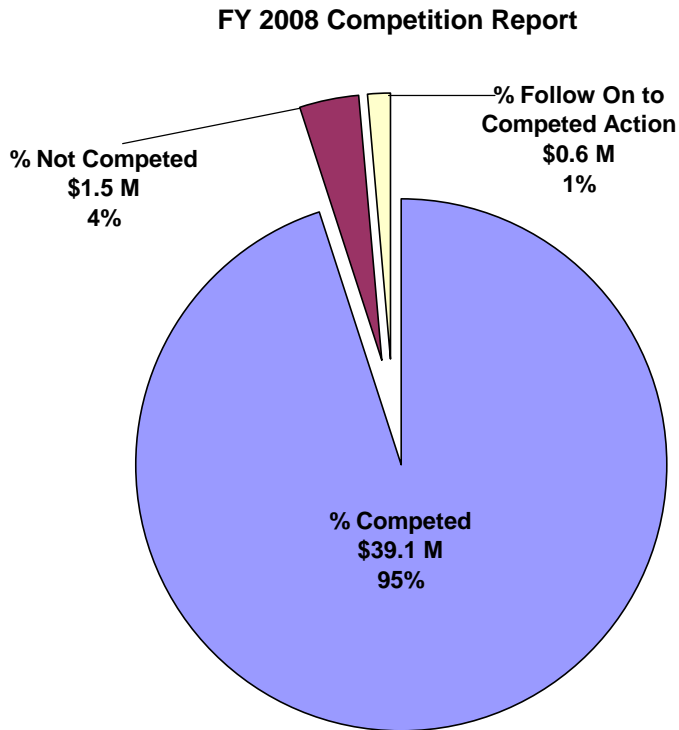
<b>Vendor</b>	<b>Brief Description of Services</b>	<b>Total Obligated in FY 2008</b>
GSA Office Of Finance	Payments to GSA for leasing of office space.	\$44,738,723
AAC, Inc.	Provides the support for the FCC's auctions systems, including system integration efforts.	\$15,260,719
Computech, Inc.	Provides support service for FCC information systems and websites, including systems supporting auctions activity and financial operations.	\$12,840,704
Computer Sciences Corporation	Provides support service for FCC licensing and operations systems as well as associated financial systems.	\$7,940,373
Zen Technology	Provides the FCC with support for its core information technology infrastructure.	\$7,649,598
Natek, Inc.	Provides a wide range of services to the FCC which focus primarily on supporting administrative operations such as the mailroom, warehouse receiving, transportation, housekeeping, parking attendants, and also includes financial operations.	\$5,400,337
CGI Federal, Inc.	Core financial system replacement.	\$5,115,195
Omniplex World Services Corp	Provides security guards for the FCC's headquarters.	\$4,622,436
Ambit	Provides database infrastructure support, information technology analysis, web services, and 3rd party software support for the FCC.	\$3,626,351
Grant Thornton	Financial project management and change management service support.	\$2,504,442
Xerox Corp.	High volume printer maintenance and paper supplies for DTV reproduction.	\$2,117,772
Realty Leasing & Management Co.	Provides space and facility support for the FCC's Gettysburg office.	\$2,070,411
Department of Justice	Provides litigation services.	\$1,716,271
Clifton Gunderson	Provides audit services to support the FCC's Office of Inspector General.	\$1,710,792
DOI - National Business Center	Provider of FCC's current core financial management system and supporting financial systems.	\$1,623,109
Government Printing Office	Printing services.	\$1,546,093
AARP	DTV advertisement in AARP's magazine and bulletin.	\$1,316,876
ECS, Inc.	Hotline support.	\$1,312,821

*Top 25 Vendors to Commission During FY 2008 cont.*

<b>Vendor</b>	<b>Brief Description of Services</b>	<b>Total Obligated in FY 2008</b>
Ketchum, Inc.	Digital Television (DTV) consumer education support services.	\$1,205,578
Open Systems Sciences	Provides support for information security.	\$1,106,226
WMATA	Metro checks.	\$1,060,094
Protiviti	Information specialist and administrative support services.	\$997,281
Federal Working Group, Inc.	FCC customer service and auction support.	\$996,509
Integral Media, Inc.	Integral Media - multiple magazine advertisements, custody storage, and auction loan servicing support.	\$912,897
Ernst & Young	Financial services and auction loan operational support.	\$909,654

***Competition in Contracting***

In addition, the Commission maintained a 95% rate of competition in its contracting actions. The chart below shows the level of competition for the Commission’s contract dollars that were obligated for new awards during FY 2008.<sup>1</sup>

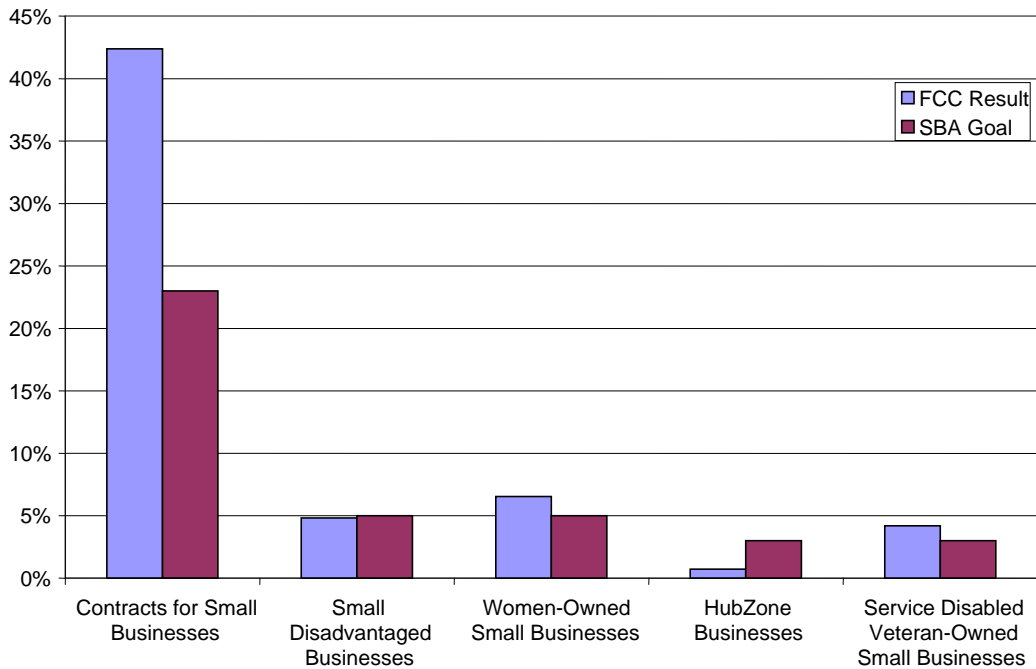


1. Please note that the Commission’s contracting data on [www.usaspending.gov](http://www.usaspending.gov) contains errors related to the competition data. The Commission plans to correct this data in FY 2009.

### *Small Business Contracting Performance*

Finally, the Commission exceeded the government-wide statutorily set small business contract goals in three out of five categories for FY 2008. Overall, the Commission issued 42% of its contract dollars that were eligible for small contract awards to small businesses. This exceeds the government-wide goal of 23% by over 82%. Furthermore, the Commission exceeded the government-wide goals for awarding contracts to Woman-Owned Small Businesses and Service Disabled Veteran-Owned Small Businesses.

### **FY 2008 FCC Small Business Contracting Achievements**

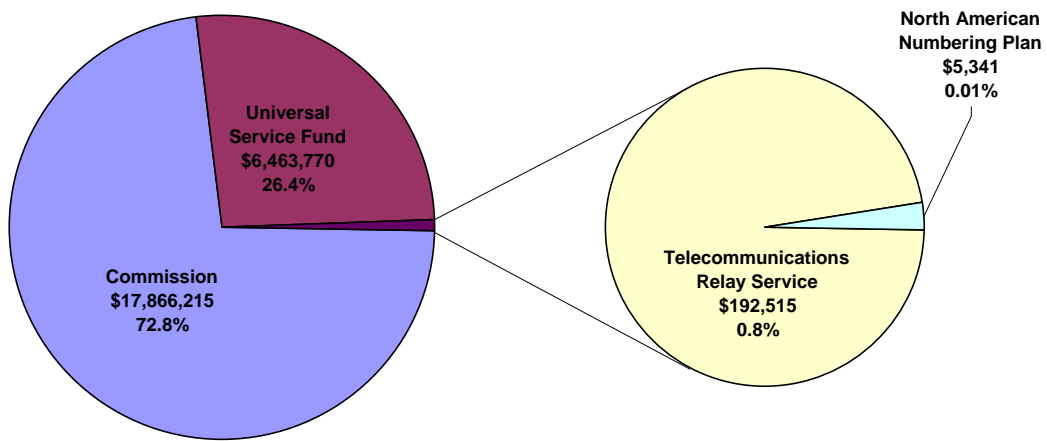


**Financial Statements**

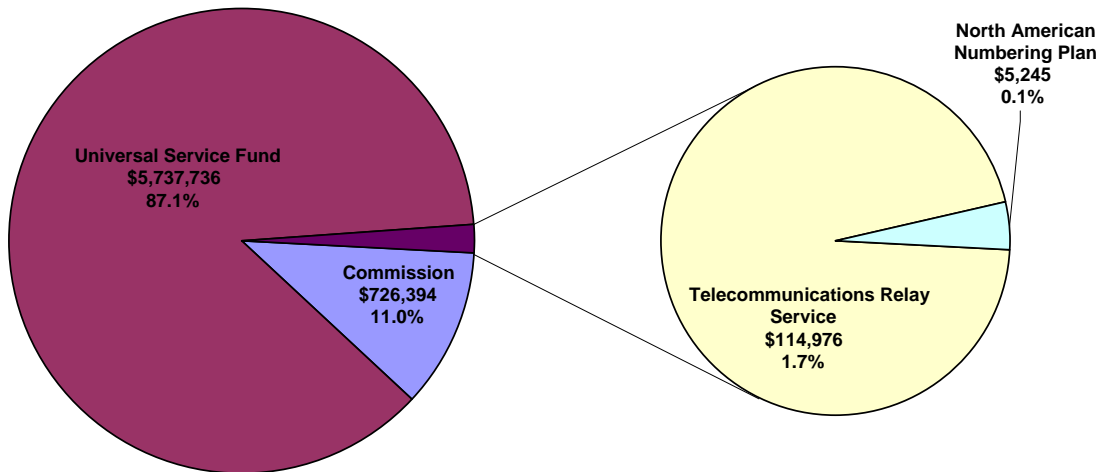
The financial statements detail the Commission’s financial activity and financial position. The financial statements, related notes, and the required supplementary information can be found in Chapter 3 of this report. The following is a brief analysis of the principal statements.

**Consolidated Balance Sheet**

**FY 2008 - Assets  
\$24,527,841**



**FY 2007 - Assets  
\$6,584,351**



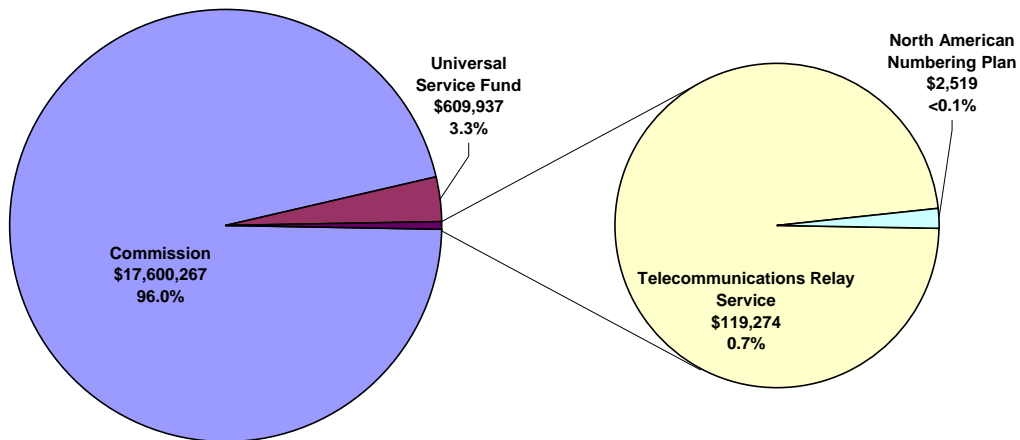
The most significant assets are Fund Balance with Treasury of \$444 million, Investments of \$5,722 million, Accounts Receivable of \$891 million, and an Intragovernmental Other asset of \$17,177 million. Together, these balances accounted for 98% of total assets as of September 30, 2008.

The large Investments balance of \$5,722 million results from carryover in the USF Schools and Libraries and rural Healthcare programs that have grown since the program's inception as a result of annual contributions that have exceeded annual distributions. The USF has \$3,507 million in Schools and Libraries and Rural Health Care commitments against this balance as of September 30, 2008.

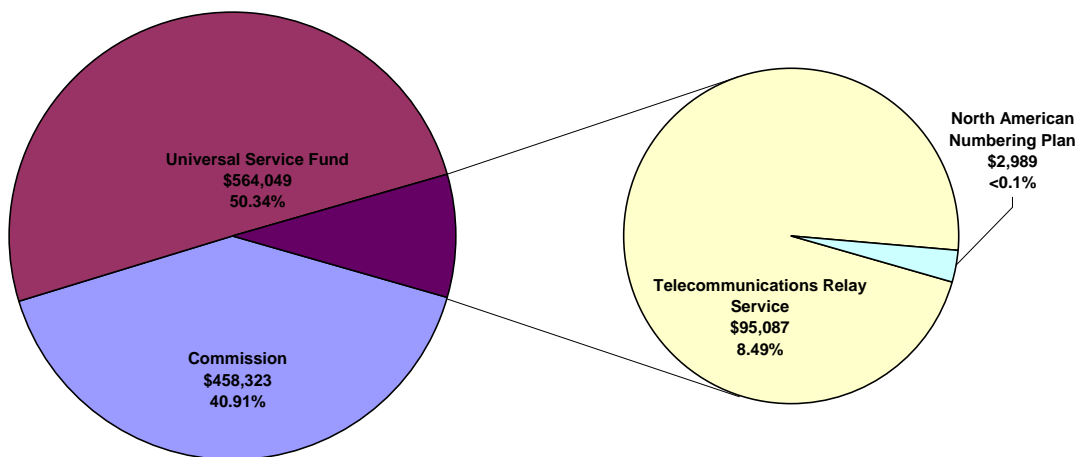
The Intragovernmental Other asset was recorded by the FCC to recognize the fact that while deposits initially collected by the FCC and recorded as deferred revenue for the 700 MHz band licenses in Auction #73 have been transferred to the National Telecommunications and Information Administration (NTIA), should any of those deposits need to be refunded, the refund would be processed by the FCC. This asset will be eliminated with a corresponding liability recorded by NTIA in the governmentwide consolidation process. Additional disclosures regarding this asset can be found in Note 8 to the financial statements.

The Accounts Receivable balance of \$891 million is primarily composed of USF receivables totaling \$862 million.

**FY 2008 - Liabilities**  
**\$18,331,997**



**FY 2007 - Liabilities**  
**\$1,120,448**



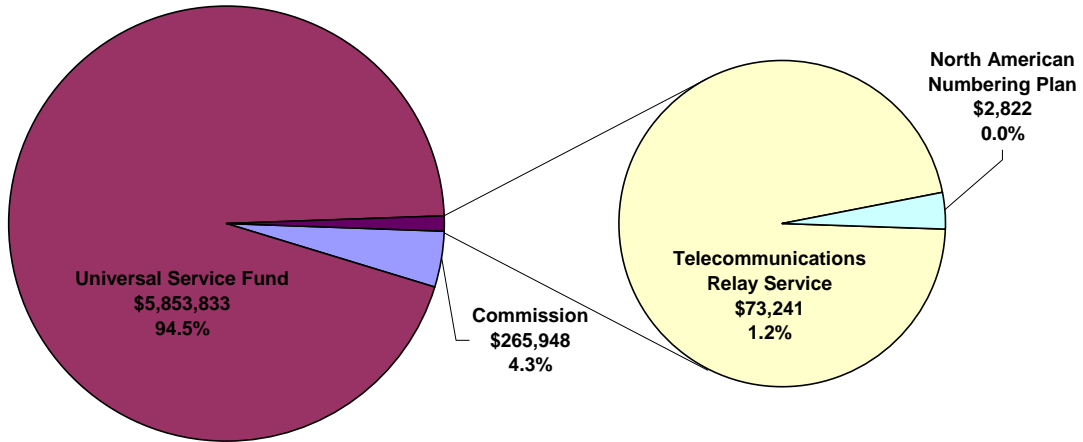
The Commission’s most significant liabilities are Deferred Revenue of \$17,303 million and Accrued Liabilities for Universal Service of \$521 million, which accounted for 97% of total liabilities as of September 30, 2008.

The deferred revenue balance includes \$17,177 in winning bids for auction #73 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 FCC.

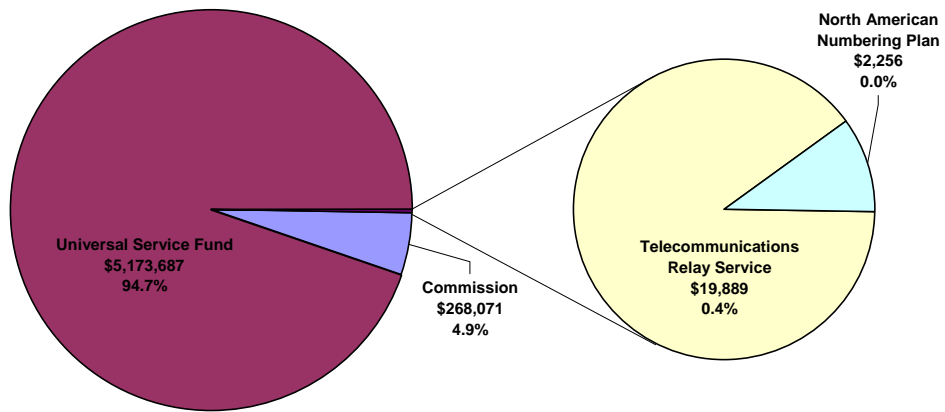
The accrued liabilities for Universal Service represent the expected October (FY 2009) payments for the Telecommunications Relay Service and the High Cost and Low Income programs.



**FY 2008 - Net Position  
\$6,195,844**



**FY 2007 - Net Position  
\$5,463,903**



## Consolidated Statement of Net Cost

	<b>FY 2008 (Dollars in thousands)</b>	<b>FY 2007 (Dollars in thousands)</b>
Net Cost of Operations	\$7,822,436	\$7,337,710

The Consolidated Statement of Net Cost is aligned with the six strategic goals of the Commission: Broadband, Competition, Spectrum, Media, Modernize the FCC, and Public Safety and Homeland Security. 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 within 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 chart below depicts the costs by component entity for the Competition strategic goal.

	<b>FY 2008 (Dollars in thousands)</b>	<b>FY 2007 (Dollars in thousands)</b>
FCC	(12,119)	(4,864)
TRS	650,982	531,539
USF	7,160,103	6,957,331
NANP	(566)	(169)
Total	\$7,798,400	\$7,483,837

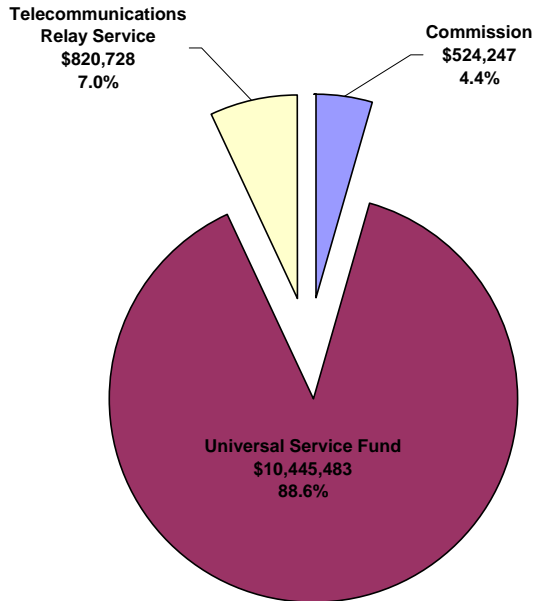
## Consolidated Statement of Changes in Net Position

	<b>FY 2008 (Dollars in thousands)</b>	<b>FY 2007 (Dollars in thousands)</b>
Unexpended Appropriations	\$11,273	\$17,544
Cumulative Results of Operations	\$6,184,571	\$5,446,359

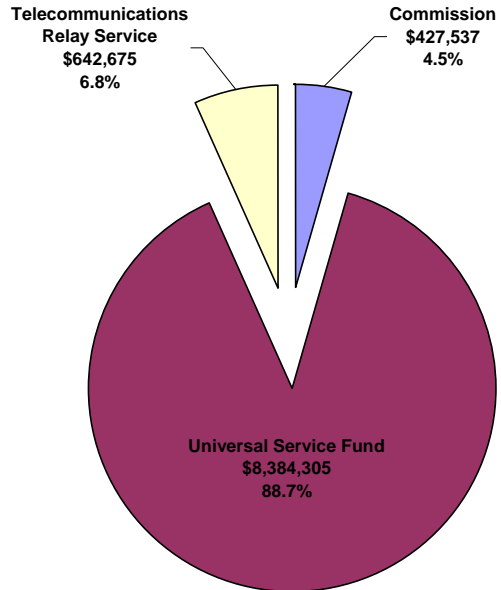
The net change to Cumulative Results of Operations in FY 2008 was \$738 million, an increase over the previous year of \$486 million. The continued increase in demand for High Cost services in the USF program and increased administrative expenses drove the USF contribution factor from .102 at the beginning of the year to .114 at the end of the year. A similar increase in demand for video relay services in the TRS program drove the fund size for the program from \$553 million for the period July 2007 through June 2008 to \$805 million for the period July 2008 through June 2009 and increased the contribution factor from .0072 to .01012. The increase in the factors combined with decreases to the USF allowance for doubtful accounts percentages resulted in an increase to Non-exchange revenue of \$996 million over FY 2007. Corresponding increases to costs in FY 2008 expended about \$484 million of the increased revenue while decreases to other financing sources of around \$26 million account for the remainder of the \$486 million change.

# Combined Statement of Budgetary Resources

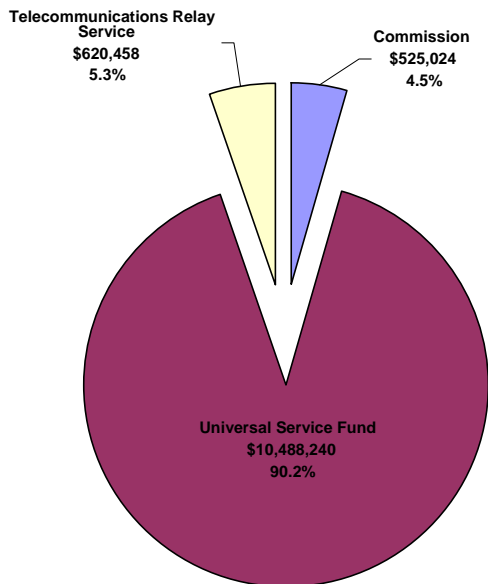
**FY 2008 - Total Resources**  
**\$11,790,458**



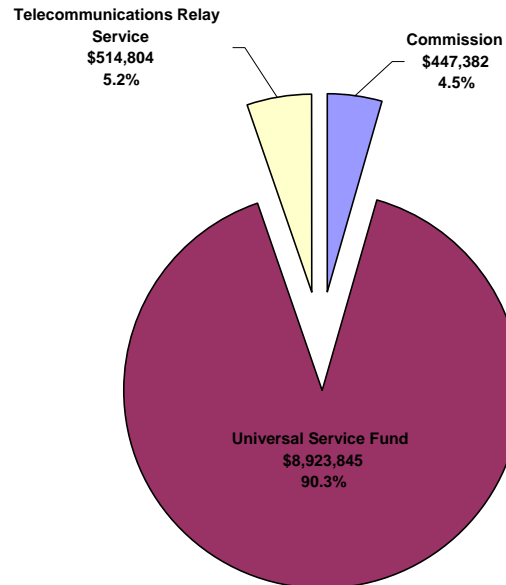
**FY 2008 - Obligations Incurred**  
**\$9,454,517**



**FY 2007 - Total Resources**  
**\$11,633,722**



**FY 2007 - Obligations Incurred**  
**\$9,886,031**



## Consolidated Statement of Custodial Activity

	<b>FY 2008 (Dollars in thousands)</b>	<b>FY 2007 (Dollars in thousands)</b>
Custodial Liability	\$ 193,854	\$ 256,223

The Commission recognized \$1,860 million of custodial revenue during FY 2008 and added this to the previous custodial balance of \$256 million. From the resulting balance \$1,828 million was transferred to Treasury and other entities, primarily NTIA who received \$1,779 to fund efforts under the Digital Television Transition and Public Safety Act of 2005. Another \$94 million was retained by the FCC, \$85 million to fund the FY 2008 cost of the auction program and \$9 million in interest on deposits that by law was required to be sent to the Telecommunications Development Fund. The remaining Custodial Liability balance of \$194 million at September 30, 2008 consists of \$85 million that will be used to fund FY 2009 auction costs, \$87 million that represents spectrum loan recoveries pending final determination from OMB, \$15 million in accrued custodial liability for accounts receivable awaiting collection and \$6 million in funds available for return to Treasury or application against FY 2010 auction costs.

### 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 2009 subsidy reestimate was completed to reflect the actual loan performance through August 31, 2008 and projected performance through September 30, 2008. The reestimate resulted in a net upward adjustment (increase in the subsidy cost), including interest on the reestimate, totaling \$28 million in the Spectrum Auction program.

This reestimate is reported in the Commission's FY 2008 financial statements, but will not be reported in the budget until FY 2009. For more details, see financial statement Footnote 7 in Chapter 3.

### *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 2008, the Commission was required to collect \$312 million in regulatory fees. The Commission actually collected \$325 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 2008 and FY 2009 subsidy reestimates using a balances approach designed to align the Commission's outstanding debt to Treasury with the

projected remaining cashflows for the program. The generation of the remaining cashflows 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 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.

# *Systems, Controls, and Legal Compliance*

## *INTERNAL CONTROL*

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 2006 and FY 2007. In conjunction with both of those opinions, the independent auditors provided the Commission with reports on internal controls. The independent auditors' report identified no material weaknesses in internal control at the Commission for FY 2006 or FY 2007. FY 2006 was the first fiscal year that the Commission had received both an unqualified audit opinion and internal control report that identified no material weaknesses. The FY 2007 report on internal control did include three sets of significant deficiencies in the following areas: financial reporting, Debt Collection Improvement Act compliance, and compliance with OMB Circular A-130. Throughout FY 2008, the Commission worked diligently on closing the audit findings from the FY 2007 audit as well as findings from previous audits. The Commission made significant progress on resolving recommendations, closing 107 for the year; further details on these figures are provided above in the Performance Highlights Section.

Furthermore, the Commission went beyond the baseline internal control requirements of OMB Circular A-123 by establishing a Senior Management Council in FY 2006 to strengthen its efforts to assess risk to the Commission's operations. The creation of the Senior Management Council continued to improve results at the Commission during FY 2008. As in previous years, the Commission engaged in a systematic risk assessment process of its operations. The results of the risk assessments were analyzed by the Commission's Senior Management Council and activities are underway to remediate any control deficiencies that were identified as a result of the risk assessments. Finally, for the third straight year, the independent auditors issued an unqualified audit opinion on the Commission's financial statements. Three straight years of clean audit opinions is an unprecedented accomplishment for the Commission.

## ***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 the 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 a qualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA, with the exception of one material weakness and two non-conformances. Details concerning these exceptions are discussed below.



Kevin J. Martin  
Chairman

November 17, 2008

## **Status of Internal Controls – Section 2 of FMFIA**

During FY 2008, the Commission furthered its efforts to improve and strengthen its internal controls. The Commission conducted systematic risk assessments of its operations. The results of the risk assessments were analyzed by the Commission's Senior Management Council and activities are underway to remediate any control deficiencies that were identified as a result of the risk assessments. Also throughout FY 2008, the Commission worked diligently on closing audit findings from previous audits. The Commission as a whole closed 107 audit findings during FY 2008. As a part of this effort, the Commission made progress on resolving matters raised by its auditors in their FY 2007 audit report. The Commission closed findings relating to the financial management of its reporting components. The Commission tightened up its controls in the area of information security by closing findings related to its interconnections with its business partners and improving policies and procedures where necessary. The Commission also made progress in the area of compliance with the Debt Collection Improvement Act by transferring on time more than 98% of its eligible debt to the Department of the Treasury for collection. Furthermore, the Commission made progress in resolving its findings related to its financial management systems by moving forward with the acquisition of a new core financial system and planning reviews of its current feeder systems as required by OMB Circular A-127.

Despite these successes, work remains here at the Commission. The fiscal year 2008 audit report points out one material weakness and three significant deficiencies related to internal controls and notes two instances of non-compliance that still need to be resolved. The primary areas of concern relate to financial reporting, the modernization of both the Commission's and its reporting components' financial management systems, information technology control weaknesses, and instances of non-compliance with the Debt Collection Improvement Act.

With regard to the material weakness, for the first time since 2005, the independent auditor identified a material weakness in the Commission's internal controls over its finance and accounting operations. Specifically, the independent auditor concluded that the Universal Service Administrative Company (USAC), which administers the \$7.8 billion Universal Service Fund (USF) under Commission oversight, misinterpreted the Commission's instructions and failed to properly implement a change to an accepted accounting method. The independent auditor notes that USAC's internal control breakdown was isolated to only one of the Commission's five financial statements, the Statement of Budgetary Resources (SBR). The Commission and USAC have already started implementing appropriate corrective action to ensure this or similar breakdowns do not occur in the future.

The independent auditor's conclusion underscores the need for strong Commission oversight of USAC. During FY 2008, the Commission revised and strengthened the existing Memorandum of Understanding (MOU) with USAC, required USAC to implement a performance-based executive compensation program, and directed USAC to take strong measures to prevent and deter potential improper payments. Still, USAC's failure to properly implement the Commission's instructions concerning its budgetary accounting procedures highlights the importance of the Commission taking an active role to ensure USAC administers the USF in an efficient, effective manner. During FY 2009, we plan to continue our record of strong oversight of USAC and the USF.

## **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 Section 7 of 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 plans to bring the systems into substantial compliance.



As previously noted by the Commission's auditor, the Commission's financial management systems do not substantially conform to government-wide requirements. The auditor has noted the following two non-conformances: the Commission lacks a fully integrated financial management system and the Commission needs to ensure that the functionality of its financial systems fully complies with Federal requirements. The Commission is working to correct these instances of non-conformance and has started to perform new A-127 reviews of its financial systems.

Most importantly, the Commission is currently relying on a core financial management system that is becoming obsolete and will not be supported by its vendor. During FY 2007, the Commission used a systematic methodology to document and analyze its current financial processes. This analysis provided the Commission with the insight it needed to identify areas for potential process reengineering and to define its needs for a new financial system. Building upon this analysis, the Commission developed an acquisition and implementation strategy to move to a new core financial management system that will best meet the Commission's business needs and will bring the Commission into substantial compliance with government-wide requirements. 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 as it moves to the new core financial system. At this time, the Commission plans to complete the deployment of the new financial system by October 1, 2010.

## 2. Program Performance

The FY 2008 performance accomplishments reported in this chapter conform to the strategic and performance goals identified in the FCC Strategic Plan (<http://www.fcc.gov/omd/strategicplan>). While the current strategic plan relied heavily upon the prior strategic plan (FY 2003 - FY 2008), there were some changes in focus and emphasis. Thus, as allowed by and acknowledged as likely to happen by both GPRA and OMB Circular A-11, these changes in strategic and performance goals mean that the performance data in this chapter may differ from that reported in previous years under the prior strategic plan. In future years reviewers should expect differing performance accomplishments data.

As with past Performance and Accountability Reports (FY 2004 through FY 2007), the accomplishments reported may cross strategic goals. In an effort to reduce repetition, we have placed the agency's accomplishments under the goals where their impact is most pronounced, but that does not mean their effects are isolated to that goal. Indeed, any one accomplishment may be directly relevant to our progress in achieving other goals as well.

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# ***BROADBAND***

## ***Strategic Goal:***

***Establish regulatory policies that promote competition, innovation, and investment in broadband services and facilities while monitoring progress toward the deployment of broadband services in the United States and abroad.***

Broadband deployment remains a top priority of this agency. Broadband technology drives economic growth by facilitating innovation and access to information, commerce, education, and entertainment. Because broadband changes the way people work, play, learn, and communicate, public demand for faster, more robust broadband services and products has increased, which has led to increased deployment of broadband technologies and applications.

Deployment of developing broadband services that utilize power lines, fiber, and terrestrial and satellite wireless technologies is helping the Commission to ensure that access is not a barrier to adoption of affordable broadband technologies as they become available.

## ***FY 2008 PERFORMANCE GOALS***

- Broaden the deployment of broadband technologies.
- Define broadband to include any platform capable of transmitting high-bandwidth intensive services, applications, and content.
- Ensure harmonized regulatory treatment of competing broadband services.
- Encourage and facilitate an environment that stimulates investment and innovation in broadband technologies and services.

## ***FY 2008 PERFORMANCE HIGHLIGHTS***

### ***Broaden the deployment of broadband technologies:***

- Universal Service Initiatives
  - Rural Health Care Mechanism Pilot Program – On November 19, 2007, the Commission released the *Rural Health Care Pilot Program Selection Order*, selecting 69 participants covering 42 states and three U.S. territories to be eligible to receive funding for up to 85 percents of the costs associated with: (1) the construction of a state or regional broadband network and the advanced telecommunications and information services provided over that network; (2) connecting to Internet2 or National LambdaRail; and (3) connecting to the public Internet. Total maximum funding for the Pilot Program participants will be approximately \$417 million over three years. Participants' network build-outs must be completed within five years of receiving an initial funding commitment letter from the Universal Service Administrative Company. The Commission intends to use the information gathered from the Pilot Program to

understand how to modify the existing rural health care program to support the deployment of a nationwide broadband health care network.

- Schools and Libraries - On October 19, 2007, the Commission released the Eligible Services List for FY 2008 to provide greater transparency for schools and libraries subscribing to broadband services. The agency also adopted orders granting more than 700 appeals of decisions of the universal service fund administrator as part of its efforts to ensure that eligible schools and libraries obtain access to discounted telecommunications and information services, including broadband access.
- 700 MHz Broadband and Narrowband Public Safety Operations – On September 25, 2008, the Commission adopted a *700 MHz Third Further Notice of Proposed Rulemaking* (FCC 08-230), that proposes licensing the 700 MHz D Block spectrum as part of a revised 700 MHz Public/Private partnership that seeks to maximize the public safety and commercial benefits of a nationwide, interoperable broadband network.
- Rural Broadband – Commission staff participated in three Regional Educational Workshops on Rural Broadband. Staff presented information on broadband technologies and on the use of license-exempt devices to provide broadband access. The workshops also provided participating communities and organizations information on licensed broadband access devices, the FCC’s Rural Health Care Pilot program, and the U.S. Department of Agriculture’s (USDA’s) funding for broadband deployment. Furthermore, the participants were also able to share their experiences about broadband deployment in rural and hard-to-reach areas with FCC and USDA representatives.
- 3.65 GHz – Commission staff worked closely with industry to continue to develop contention-based protocols for the 3.65 GHz band and to continue to address technical issues related to unlicensed Wireless Internet Service Providers (WISPs).
- Interstate Telecommunications Relay Fund – The Commission released a Public Notice clarifying the eligibility requirements for compensation from the Interstate Telecommunications Relay Service Fund for providers of Internet-protocol-captioned telephone service (IP CTS). By clarifying the rules permitting IP CTS providers to seek Commission certification to offer service and receive compensation from the Fund, the number of the providers of this service should increase, resulting in further competition, innovation, and choice for consumers.
- Automatic Roaming for Non-Interconnected Services. The Commission issued a Further Notice of Proposed Rulemaking seeking comment on whether the automatic roaming obligation should be extended to non-interconnected services or features, including services that have been classified as information services, such as wireless broadband Internet access service.
- Consumer Education – The Commission revised its broadband consumer fact sheet to include more suggestions for consumers on how broadband can be obtained. The Commission also updated other Internet and rural health care fact sheets to provide more information on the benefits of broadband and determining its availability.
- Submarine Cable Landing Authorizations – The Commission granted cable landing licenses for construction and landing of seven new submarine cable facilities adding substantial international transmission capacity between the United States and other countries as well as between domestic points within the United States. The Commission acted on five applications

for transfers of control and assignments of submarine cable landing authorizations, as well as processing three pro-forma transfer of control applications.

- Advanced Commission's Broadband Policy in International Fora – Commission staff worked in various international fora including the International Telecommunication Union (ITU), the Inter-American Telecommunication Commission (CITEL), Asia Pacific Economic Cooperation Telecommunication and Information Working Group (APEC TEL), Organization for Economic Co-operation and Development (OECD) and bilateral meetings with officials at the European Commission to advance the Commission's agenda for broadband by participating in staff level discussions with international policy makers.
- Contributed to International Analysis of Broadband Development – Commission staff participated in extensive review and editing of OECD documents expressing views and strategies for international broadband issues. Staff provided technical and policy expertise to the U.S. Delegations to CITEL on U.S. regulatory policies and rules for IP-enabled services. The Commission also provided U.S. Government statistical data to the OECD and the ITU on U.S. broadband deployment.

***Define broadband to include any platform capable of transmitting high-bandwidth intensive services, applications, and content:***

- Broadband Reporting - The Commission collected two rounds of broadband information and prepared two statistical reports that provided data about broadband connection speeds and how extensively broadband Internet access services are available via cable modem and digital subscriber line technologies. The Commission continued its efforts to collect the information it needs to set broadband policy in the future by revising its Form 477 broadband data collection to gather more precise information about broadband deployment and subscribership generally, and about mobile wireless broadband in particular.
- OECD – Commission officials and staff participated with industry groups in discussions about broadband definition and metrics at OECD meetings and provided data to the OECD and the International Telecommunication Union (ITU) on U.S. broadband deployment.

***Ensure harmonized regulatory treatment of competing broadband services:***

- Broadband Infrastructure Deployment
  - The Commission adopted the *Pole Attachment NPRM*, which revisits the pole attachment rules, and tentatively concludes that “all attachments used for broadband Internet access service should be subject to a single rate, regardless of the platform over which those services are provided.”
  - By approving the merger of Verizon and FairPoint Communications, Inc., the Commission increased the incentive and ability of the merged entities to invest in broadband infrastructure and spread the deployment of advanced services to all Americans.
  - The Commission released the *Competitive Networks Order*, which prohibits carriers from entering into contracts that would make them the exclusive providers of telecommunications services in residential multiple tenant environments (MTEs), and from enforcing existing exclusivity contracts in predominantly residential MTEs. This order puts telecommunications carriers on a par with cable operators in competition to provide voice, video, and broadband Internet access services to MTE residents.

- The Commission released the *Fifth Section 706 Report*, assessing the deployment of advanced telecommunications capability. The Commission found, pursuant to the analytical framework established in prior reports, that advanced telecommunications capability is being deployed to all Americans in a reasonable and timely manner.
- Intercarrier Compensation for IP Traffic – The Commission continued its efforts to encourage an environment that stimulates investment in broadband by seeking comment on several petitions regarding the intercarrier compensation obligations applicable to IP-enabled services that utilize the public switched telephone network.
- Telecommunications Relay Service
  - The Commission released an Order granting in part and denying in part several petitions for waiver relating to the application of the TRS rules to interconnected Voice over IP (VoIP) services; specifically, the obligation of interconnected VoIP providers to route 711 calls (the access number for TRS calls) to an appropriate relay center, and the obligation of TRS providers to call an appropriate PSAP when receiving a 711 call concerning an emergency. This follows from an earlier Commission order imposing the same TRS obligations on interconnected VoIP providers as apply to traditional telephone companies.
  - The Commission released a Report and Order and Declaratory Ruling that, in part, adopted new cost-recovery methodologies for the Internet-based forms of TRS, including VRS, IP Relay, and IP CTS. This order is intended to ensure that all forms of TRS, including the newer Internet-based forms of TRS, are compensated consistent with the TRS rules.
  - The Commission released a Report and Order, adopting interim emergency call handling requirements for Internet-based TRS providers. These measures ensure that persons using Internet-based forms of TRS, like persons using the PSTN-based forms of TRS, can promptly access emergency services pending the development of a technological solution that will permit Internet-based TRS providers to automatically determine the geographic location of the consumer and place the outbound leg of an emergency call.
  - The Commission held a stakeholder workshop on solutions for implementing a ten-digit numbering plan for Internet-based forms of TRS. The Commission released a Report and Order adopting a system for assigning users of Internet-based TRS ten-digit telephone numbers linked to the North American Numbering Plan. The numbering system adopted will further the functional equivalency mandate by ensuring that Internet-based TRS users can be reached in the same way that voice telephone users are called.
  - The Commission released an NPRM seeking comment on various issues with respect to IP Speech-to-Speech (IP STS), including whether it is a form of TRS compensable from the Interstate TRS Fund.
- VoIP Provider Compliance with Enhanced 911 (E911) Requirements – The Commission continued to monitor the compliance of VoIP providers with its E911 rules. On August 15, 2008, the Commission concluded its investigation into whether an interconnected VoIP provider failed to provide fully compliant E911 service to its customers by issuing a Notice of Apparent Liability for Forfeiture in the amount of \$25,000 for violation of section 9.5(b) of the Commission’s rules.
- Access Broadband Over Power Line (BPL) – The Commission issued a letter of admonishment to an operator of a BPL system for causing harmful interference to Amateur Radio Stations by

violating the radiated emission limits of section 15.109 of the rules and the terms of its experimental license.

- Bilateral, Regional and International Consultations – As members of U.S. delegations, Commission officials were involved in discussions about harmonizing regulatory treatment for competing broadband services at the India ICT Working Group; in bilateral discussions with China; and in consultations with the Government of Singapore. The Commission also participated at the State Department-led “ICT Road Map to Opportunities Conference” to discuss challenges and opportunities presented by the implementation of policy to accelerate broadband deployment in West Africa.

***Encourage and facilitate an environment that stimulates investment and innovation in broadband technologies and services:***

- 700 MHz Band Plan and Auction - The Commission modified the band plan for the 698-806 MHz band, which is being recovered as a result of the digital television transition, and established related service rules for commercial and public safety licenses in the band. In an auction that commenced on January 24, 2008, and concluded on March 18, 2008 (Auction 73), 1,090 commercial 700 MHz Band licenses were won by bidders with net winning bids totaling nearly \$19 billion. The auction advanced new wireless open platform policies, created opportunities for new entrants and small businesses both nationwide and in rural markets. Non-nationwide incumbents showed significant interest in rural area. 75 new players won licenses to serve 305 rural areas of the country (428 Rural Service Area licenses in total). Winners in these markets will provide increased access to broadband and greater choice in wireless service for consumers living in rural areas.
- Advanced Wireless Services (AWS) Auction, Licensing and Band Plans – The Commission’s AWS proceedings seek to provide significant new spectrum to meet the demand for new and advanced wireless services, including various mobile consumer service technologies more advanced than analog cellular (first generation, or 1G) or digital cellular (2G), and could include 3G, 4G, and other advanced technologies. The AWS-1 proceeding covers 90 MHz of spectrum in the 1710-1755 and 2110-2155 MHz bands. The AWS-2 and AWS-3 proceedings involve 40 MHz of spectrum in the 1915-1920 MHz, 1995-2000 MHz, 2020-2025 MHz and 2155-2180 MHz bands.
  - The Commission established service rules for AWS-1 spectrum, which had been transferred from the Federal Government. The first AWS-1 auction (Auction 66) was completed in 2006. The Commission recently concluded an auction of various AWS-1 and broadband PCS licenses that had been previously auctioned but returned to the Commission as a result of license cancellation or termination, or had been offered previously in other auctions but remained unsold. This auction (Auction 78), offered 55 licenses: 35 AWS-1 licenses and 20 broadband PCS licenses. Results of Auction 78 can be found under the *Spectrum* goal section.
  - On June 20, 2008, the Commission adopted a *Further Notice of Proposed Rulemaking* that proposes public access to free, nationwide, high-speed wireless broadband Internet services using a portion of the 2.1 GHz AWS spectrum. In particular, the *Further Notice* proposes combining the 2155-2175 MHz band with the 2175-2180 MHz band to create a 25 megahertz block of spectrum and a single nationwide license. The *Further Notice* also proposes requiring the licensee for the 2155-2180 MHz spectrum to provide – using up to 25 percent of its wireless network capacity – free, two-way broadband Internet service at engineered data rates of at least 768 kbps downstream. Additional obligations associated with the licensee’s free broadband service would include a requirement to



provide a network-based filtering mechanism for the free Internet service in order to protect children and families, and a requirement that the network allow for the use of open devices.

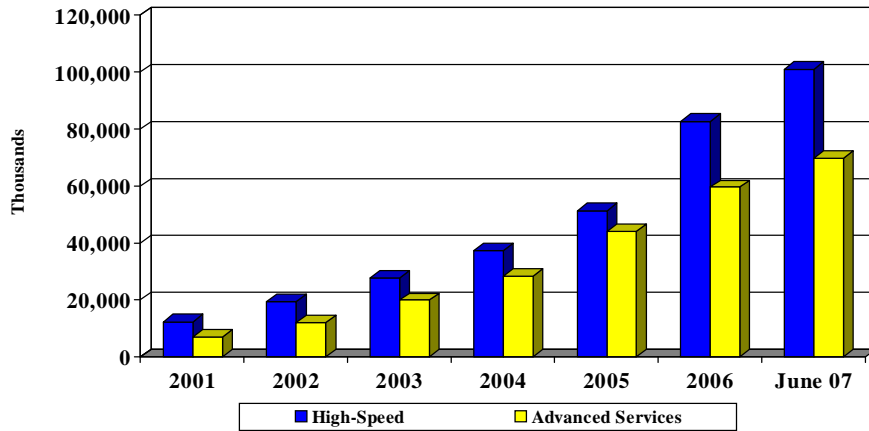
- Network Management Practices
  - In response to petitions, and seeking to establish rules governing network management practices by broadband network operators, the Commission held two public *en banc* hearings on broadband network management practices in Cambridge, Massachusetts, and at Stanford University.
  - The Commission released the *Comcast Network Management Practices Order*, which affirmed the Commission's authority to protect the open and vibrant character of the Internet, laid out a framework for adjudicating disputes and concluded that Comcast's management of its broadband Internet networks contravenes federal policies.
  
- Broadband Radio Service/Education Broadband Service (BRS/EBS)
  - In March 2008, the Commission issued the *BRS/EBS Fourth Memorandum Opinion & Order, Further Notice, and Declaratory Ruling* regarding rules governing the 2496-2690 MHz band. Specifically, the item set forth auction rules for unassigned BRS spectrum, sought comment on ways to license EBS spectrum in the future, established a BRS service area for the Gulf of Mexico, modified certain technical rules, and clarified the "splitting-the-football" process for dividing overlapping protected service areas with expired licenses.
  - As part of the ongoing transition of the BRS/EBS 2500-2690 MHz band to a new, broadband-friendly band plan, the Commission reviewed transition initiation plans and transition completion notices. As of August 28, 2008, the transition process has been started in 402 out of 493 Basic Trading Areas, and the transition has been completed in 302 BTAs.
  
- Streamlining and Harmonization of the Radiated Power Rules - The Commission released a *Biennial Regulatory Review Third Report and Order* adopting changes to its radiated power rules for the broadband PCS and AWS-1 bands that will accommodate more flexible uses of broadband technologies for advanced, high-speed services and will facilitate the development of new and innovative services. The rule revisions adopted are consistent with the radiated power rule changes the Commission adopted last year for the 700 MHz band.
  
- State, Local and Tribal Government Outreach – The Commission continued ongoing relationships with state, local, and tribal governments, consumer groups and industry, and worked closely with them throughout the year to promote access to broadband communications for all Americans. Broadband deployment remained a component of the Commission's rural outreach programs and Indian Telecommunications Initiatives (ITI). In February 2008, the Commission partnered with the Appalachian Regional Commission (ARC) and the National Association of Development Organizations (NADO) to exhibit at a joint ARC/NADO legislative event in Washington that included discussions on broadband deployment strategies. In July 2008, the Commission partnered with several tribal organizations to jointly sponsor the Commission's seventh ITI Workshop and Roundtable in Salt Lake City, Utah, which featured presentations by industry and tribal representatives on broadband deployment in tribal areas.
  
- Broadband Complaints - 100% of all Broadband inquiries and informal complaints were processed upon receipt. All requests for data on broadband complaints and inquiries were responded to within seven days.

**FY 2008 PERFORMANCE INDICATORS**

**Increase access to broadband services and devices across multiple platforms**

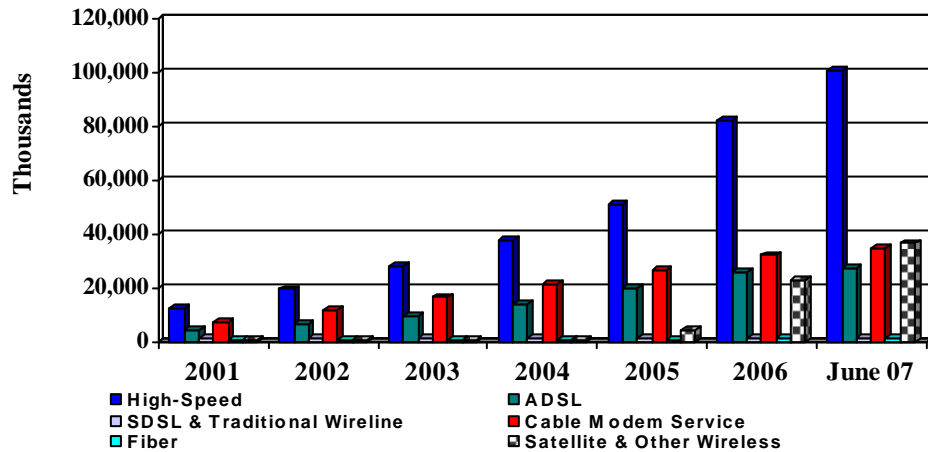
Broadband currently refers to services and facilities with a transmission speed greater than 200 kilobits per second (kbps). High-speed lines deliver services at speeds exceeding 200 kbps in at least one direction, while advanced services lines deliver services at speeds exceeding 200 kbps in both directions. (Year shown is calendar year unless otherwise noted.)

**Number of High Speed and Advanced Lines**



As of June 2007,<sup>6</sup> subscribers to high-speed services were present in more than 99% of the zip codes in the U.S.<sup>7</sup> There were 100.9 million high-speed lines in service,<sup>8</sup> a 22% increase in just six months from the end of 2006. More than 65.9 million of these were assigned to residential subscribers.<sup>9</sup> ADSL high-speed lines increased during the first six months of 2007 by 8%, to 27.5 million lines, while high-speed cable modem service lines increased by 7% to 34.4 million lines.<sup>10</sup> (Year shown is calendar year unless otherwise noted.)

**High Speed Lines Across Various Platforms**



<sup>6</sup> Data on advanced services for Internet access is collected every six months; the latest available data released from the FCC is from June 2007. The report on *High Speed Services for Internet Access: Status as of June 30, 2007*, released March 19, 2008, is available at [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-280906A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-280906A1.pdf)

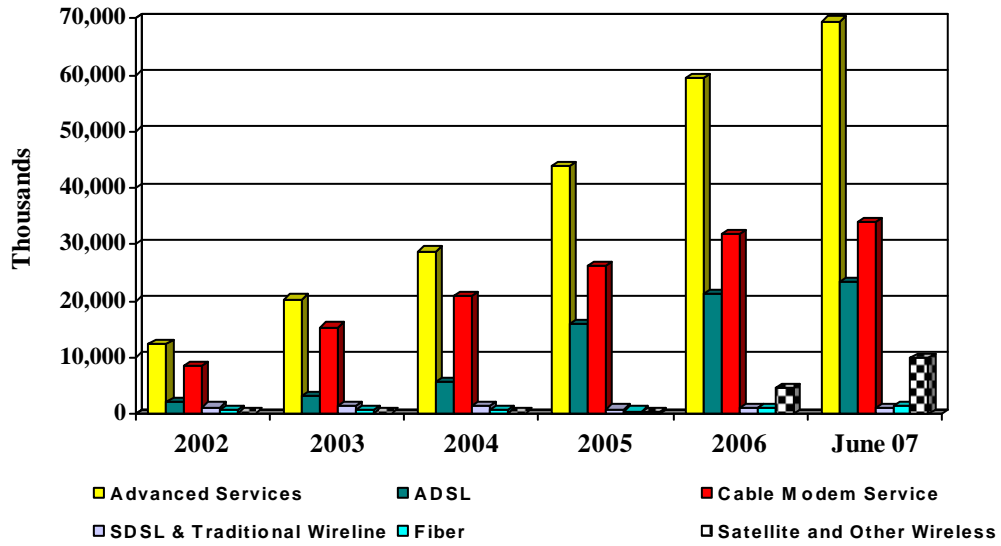
<sup>7</sup> Ibid., Chart 12, page 21.

<sup>8</sup> Ibid., Table 1, page 6.

<sup>9</sup> Ibid., Table 3, page 8.

<sup>10</sup> Ibid., Table 1, page 6.

### Advanced Lines Across Multiple Platforms



ADSL advanced services lines increased during the first six months of 2007 by 11% to 23.4 million lines, while cable modem advanced services lines increased by 7% to 33.9 million lines.<sup>11</sup> (Year shown is calendar year unless otherwise noted.)

<sup>11</sup> Ibid., Table 2, page 7.

# 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.*

The communications industry is critically important to our national and global economy. Encouraging competitive forces in markets for communications services has long been a central Commission goal to improve the quality and variety of services and to reduce prices. Indeed, the stated purpose of the Telecommunications Act of 1996, amending portions of the Communications Act, was “[t]o promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies.”

## ***FY 2008 PERFORMANCE GOALS***

- Promote access to telecommunications services for all Americans.
- Ensure that American consumers can choose among multiple reliable and affordable communications services.
- Promote pro-competitive and universal access policies worldwide.
- Work to inform American consumers about their rights and responsibilities in the competitive communications marketplace.
- Enforce the Commission's rules for the benefit of consumers.

## ***FY 2008 PERFORMANCE HIGHLIGHTS***

### ***Promote access to telecommunications services for all Americans:***

- Universal Service Fund (USF) Memorandum of Understanding - The Commission implemented a Memorandum of Understanding (MOU) with the Universal Service Administrative Company (USAC) to improve the management, administration, and oversight of the USF. Among other things, the MOU implemented performance metrics to better manage the USF and the Administrator. The MOU also required the USF Administrator to adopt certain financial management techniques required of Federal agencies, such as compliance with internal control requirements contained in OMB Circular A-123. After experience under the MOU, the Commission negotiated key changes to the agreement:
  - Procurement Integrity – Required USAC to implement procedures to eliminate the risk of actual and apparent conflicts of interest in procurements.
  - Performance-Based Contracting – Required USAC to use performance-based contracting, including financial-based incentives and penalties.

- Safeguarding Confidential Information – Required USAC to implement additional safeguards for protecting confidential information. USAC will submit a draft proposal on implementing additional safeguards for protecting and handling certain information.
  - IT Security – Required USAC to improve the security of its IT operations. USAC will submit an annual report to the FCC describing IT security safeguards, including measures taken to implement IT security requirements applicable to federal agencies.
  - Loss of Service Notification – Required USAC to notify the Commission’s Office of Inspector General, Office of Managing Director, Wireline Competition Bureau, and Office of General Counsel when it receives allegations or complaints that could result in a USF participant’s loss of eligible services, and prior to the USF Administrator making any decision that could result in a USF participant losing an eligible service.
- Comprehensive Review of USF Management, Administration and Oversight – On September 12, 2008, the Commission issued a *Notice of Inquiry* seeking recommendations on ways to prevent or reduce improper payments. In the *NOI*, the Commission is also seeking comment on ways to further strengthen management, administration, and oversight of the Universal Service Fund, how to define more clearly the goals of the USF, and to identify any additional quantifiable performance measures that may be necessary or desirable. The FCC also is seeking comment on whether and, if so, to what extent the Commission’s oversight of the USF can be improved.
  - Improving Management of the USF – The Commission took further steps to improve the administration and operation of the federal USF.
    - The Commission initiated corrective action efforts in response to the results of the Office of Inspector General’s audit program for USF which included 459 audits of USF program participants to determine whether contributions to the USF, and distributions from that fund, were being made in accordance with the Commission’s rules, and to produce data that would provide a basis for statistical estimates of erroneous payment rates as required by the Improper Payments Information Act.
    - The Commission directed USAC to take steps to prevent or reduce improper payments, including
      - linking executive compensation to improper payment reduction,
      - requiring increased public transparency into USAC payments, and
      - directing USAC to strengthen its internal controls.
    - The Commission conducted oversight of USAC and sent USAC over 30 separate pieces of correspondence in FY 2008 providing direction on following up on audit findings, procurement activities, and USAC’s operations. In particular, the Commission requested that USAC make improvements in the areas of executive compensation based on performance, customer service quality standards, and transparency in contracting actions.
    - Required USAC to improve the quality of service provided to stakeholders. Specifically, USAC must provide the Commission with a monthly complaints report.<sup>12</sup>
    - The Commission adopted an interim cap on high-cost support to competitive eligible telecommunications carriers pending comprehensive reform of the high-cost support mechanism.
    - The Commission released three *Notices of Proposed Rulemaking* seeking comment on comprehensive reform of the high-cost universal service support mechanism. In the *Identical Support Rule Notice*, the Commission sought comment on its rules governing

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<sup>12</sup> USAC reported 94 complaints during the period from March through September 2008. 66 complaints concerned USAC activities, while 28 complaints involved other entities involved in USF.

the amount of high-cost support provided to competitive eligible telecommunications carriers (ETCs), and tentatively concluded that: (a) the Commission should eliminate the “identical support” rule; and (b) support to a competitive ETC should be based on its own costs. In the *Reverse Auctions Notice*, the Commission sought comment on the merits of using reverse auctions to determine the amount of high-cost support provided to ETCs serving rural, insular, and high-cost areas, and tentatively concluded that: (a) reverse auctions offer several potential advantages over current high-cost distribution mechanisms; and (b) the Commission should develop an auction mechanism to determine high-cost support. In the *Joint Board Comprehensive Reform Notice*, the Commission sought comment on the recommendation of the Federal-State Joint Board on Universal Service regarding comprehensive reform of high-cost universal service support.

- The Commission adopted 30 orders during FY 2008 granting appeals of decisions of the USF Administrator as part of its efforts to ensure that eligible schools and libraries obtain access to discounted telecommunications and information services, including broadband access.
- The Commission acted on 35 requests for eligible telecommunications carrier designations filed by 16 entities.
- The Commission acted on 14 requests for review of universal service contribution decisions by the Universal Service Administrative Company. The Commission also acted on 7 petitions for reconsideration, and 3 petitions for clarification or declaratory ruling concerning the Commission’s universal service contribution methodology.
- The Commission took the following enforcement actions against carriers that failed to comply with the USF rules:
  - Six debarments from the USF E-rate program due to criminal convictions;
  - 12 suspensions from the USF E-rate program;
  - Six Notices of Apparent Liability totaling \$13,358,338;
  - Two Forfeiture Orders totaling \$501,765; and
  - Four consent decrees totaling \$684,400.
- Improving Management of the Telecommunications Relay Service Fund – The Commission took steps to improve the administration and operation of the Telecommunications Relay Service Fund (TRS)
  - The Commission directed the administrator of the TRS Fund, the National Exchange Carrier Association, Inc. (NECA), to improve its internal controls.
  - The Commission initiated 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 (FAR), the Commission will improve the management and administration of the TRS Fund and ensure that the Fund will be administered in an efficient, effective manner.
- Disability Access – The Commission undertook numerous actions to improve access to communications services for persons with hearing and speech disabilities.
  - The Commission released a *Report and Order and Declaratory Ruling* adopting new cost recovery methodologies for the various forms of the Telecommunications Relay Service (TRS). By ensuring the providers are compensated for their reasonable actual costs of providing service, the Commission ensures that these services will be available to consumers in compliance with the TRS service rules.
  - The Commission prepared a *Report and Order* to expand the hearing aid compatibility rules, first adopted by the Commission in 2003, requiring wireless service providers and handset manufacturers to offer a certain number of digital wireless phone handset models that are compatible with the use of hearing aids. The *Report and Order* modified the

number of handsets service providers and handset manufacturers must offer that meet the standards for radio frequency interference reduction and for inductive coupling capability, required handset manufacturers to ensure that a certain percentage of their hearing aid-compatible handset models are newly issued that year, and required wireless service providers to offer a range of hearing aid-compatible handsets with differing levels of functionality.

- The Commission released the “Report on the Status of Implementation of the Commission's Hearing Aid Compatibility Requirements.”
  - The Commission released a Public Notice reminding video programming distributors and the public of the January 1, 2008, requirements for the closed captioning of English "Pre-Rule" Nonexempt Video Programming.
  - The Commission released a Public Notice seeking comment on Hawk Relay, LLC's Petition for Clarification that its proposed Deaf Blind Relay Service (DBRS) is a form of TRS compensable from the Interstate TRS Fund. This service would help ensure that a discrete group of persons with disabilities would also have access to the telephone system.
  - The Commission released a Public Notice seeking comment on Hawk Relay, LLC's Request for Clarification that Internet Protocol Speech-to-Speech Relay Service (IP STS) is a form of TRS eligible for compensation from the Interstate TRS Fund. This service would provide another way for persons with speech disabilities to access the telephone system.
  - The Commission hosted the annual meeting of the Interagency Coordination Council on Emergency Preparedness and Individuals with Disabilities. The Commission is the lead agency on emergency communications issues for persons with disabilities. The Department of Homeland Security commended the Commission for its leadership on this issue.
  - The Commission took 23 enforcement actions, imposing forfeitures totaling more than \$575,000, to ensure that carriers complied with their obligations to make hearing aid-compatible handsets available to their customers. This compares favorably with last year's efforts, with 20 enforcement actions taken in FY 2007 totaling \$523,500.
  - Commission staff participated in the US-European Union Information Society Dialogue to discuss the digital economy, including the EU and U.S. efforts toward E-accessibility. Staff also participated in preparations for the 2008 World Telecommunication Standardization Assembly, which includes a proposal for telecommunications and information communications technologies accessibility for persons with disabilities.
- Radiofrequency Devices
    - The Commission's equipment authorization program's speed of disposal of 60 days far exceeded the target of 90 days in this period. The Commission maintained close oversight of a program that is largely privatized where more than 90% of the 9,100 equipment certifications were granted by Telecommunications Certification Bodies under the guidance of the Commission's Office of Engineering and Technology.
    - The Commission's staff worked closely with Office of the United States Trade Representative and the Department of Commerce in the ongoing development and implementation of Mutual Recognition Agreements (MRAs). These efforts resulted in the adoption of a new MRA with Vietnam and the finalization of the MRA with Japan that provides improved market access for all the participants. The staff also participated in the Security and Prosperity Partnership (SPP) for North America initiated by President Bush for closer ties with Mexico and Canada.

- The Commission took a number of enforcement actions to ensure compliance with its equipment marketing rules, including four Notices of Apparent Liability, three Forfeiture Orders, and two Consent Decrees totaling more than \$160,000.
- Experimental Licensing – The development of new technologies that promote competition is fostered in part via the experimental licensing program. The Commission granted over 1,123 experimental licenses this past year.

***Ensure that American consumers can choose among multiple reliable and affordable communications services:***

- Local Number Portability – The Commission took steps to ensure that customers are able to port their numbers reliably and expeditiously when changing carriers.
  - The Commission released an *Order* extending Local Number Portability (LNP) obligations to interconnected VoIP providers, thus ensuring that interconnected VoIP customers have the same ability to keep their telephone number when changing telephone service providers as customers of traditional telephone service. The *Order* also clarified that no entities obligated to provide LNP may obstruct or delay the porting process by demanding from the porting-in entity information in excess of the minimum information needed to validate the customer’s request. At the same time, the Commission issued a Notice of Proposed Rulemaking, seeking comment on whether the Commission should extend other LNP requirements and numbering-related rules to interconnected VoIP providers.
  - The Commission granted Embarq’s request to waive, until September 30, 2008, the February 6, 2008 deadline by which entities must comply with the Commission’s declaratory ruling that LNP validation should be based on the minimum information needed to validate the customer’s request. The Commission also granted, on its own motion, a waiver of the same deadline for all other affected companies until July 31, 2008.
- Local Competition – The Commission continued its efforts to promote local competition by seeking comment on a variety of forbearance petitions, extending statutory deadlines to ensure adequate time for comment and analysis, and refreshing the record in outstanding dockets in order to reflect recent marketplace and industry developments.
  - Forbearance
    - The Commission conditionally granted in part a petition filed by ACS of Anchorage, Inc. (ACS) for forbearance from certain dominant carrier regulation of its interstate access services and from Title II and *Computer Inquiry* regulation of its broadband services. This action granted ACS relief from certain pricing regulation while ensuring that such relief does not have harmful consequences for ratepayers or for universal service.
    - The Commission granted in part the Title II and *Computer Inquiry* forbearance petitions filed by AT&T and Legacy BellSouth. AT&T was granted relief from dominant carrier regulation of its existing packet-switched broadband telecommunications services and its existing optical transmission services. AT&T was also granted relief from its obligations under the *Computer Inquiry* rules in connection with these services, conditioned on its compliance with the *Computer Inquiry* obligations that apply to non-incumbent LEC, facilities-based wireline carriers.
    - The Commission granted in part the Title II and *Computer Inquiry* forbearance petitions filed by Embarq and Frontier/Citizens. This order granted Embarq and Frontier/Citizens forbearance relief similar to that granted to AT&T.



- The Commission granted in part the Title II and *Computer Inquiry* forbearance petition filed by Qwest. This order granted Qwest forbearance relief similar to that granted to AT&T.
    - The Commission adopted a *Notice of Proposed Rulemaking* seeking comment on whether it should adopt procedural rules to govern its consideration of forbearance petitions. The *NPRM* seeks comment about the overall functioning of the forbearance process, asking whether forbearance is being used as Congress intended, and whether company-specific petitions should drive decision making rather than the Commission deciding to take industry-wide actions.
    - The Commission released an order denying six petitions filed by Verizon requesting forbearance relief in the Boston, New York, Philadelphia, Pittsburgh, Providence, and Virginia Beach Metropolitan Statistical Areas. Verizon had requested forbearance from Unbundled Network Element loop and transport obligations, certain dominant carrier regulation of its mass market switched access services, and all *Computer III* obligations. The Commission concluded that Verizon had not satisfied the section 10 forbearance standard with respect to any of the requested forbearance under the Commission's precedent.
    - The Commission released the *Qwest 4 MSA Forbearance Order*, which denied Qwest the forbearance it sought in certain areas of the Denver, Minneapolis-St. Paul, Phoenix and Seattle MSAs, because the evidence of competition provided in the record did not satisfy the section 10 forbearance standard.
    - The Commission granted AT&T's petitions for forbearance related to cost accounting, subject to conditions, finding that AT&T demonstrated that forbearance from enforcing the cost assignment rules was warranted under section 10 of the Act because there is no current, federal need for the cost assignment rules, as they apply to AT&T, to ensure that charges and practices are just, reasonable, and not unjustly or unreasonably discriminatory; to protect consumers; and to ensure the public interest.
  - Other Actions
    - In response to a number of petitions from rate-of-return carriers, the Commission adopted several orders that permitted a number of carriers, including Windstream, Puerto Rico Telephone Company, Consolidated Communications, and Global Valley Communications to convert from rate-of- return regulation to price cap regulation. Price cap regulation is an incentive based price regulation that promotes efficiency and innovation.
    - The Commission initiated a rulemaking proceeding to investigate cost and tariffing issues raised by allegations that some rural local exchange carriers are experiencing significant increases in access demand, resulting in unreasonable access rates. The Commission tentatively concluded that it must revise its rules so that tariffed rates remain just and reasonable even if a carrier experiences significant increases in access demand. The Commission also sought comment on several possible approaches to address alleged access stimulation strategies.
- Transfer of Control Requests – The Commission processed a substantial number of requests for transfer of control of authorizations.
  - Wireless License Transfers of Control and Assignments – The Commission reviewed over 2,505 transfer of control or assignment of license applications involving 25,253 call signs in the wireless radio services. Of these applications, 2,225, or 89%, were resolved within 90 days. Overall, 99% of transfer-of-control or assignment applications were resolved within 12 months.

- Wireless Leases – The Commission also processed 1,197 spectrum lease applications involving 3,061 licenses in the wireless radio services. Of these applications, 1,177, or 98%, were resolved within 90 days. Overall, 99% of spectrum lease applications were resolved within 12 months.
- Domestic Section 214 Authorizations – The Commission processed 80 requests to transfer control of domestic section 214 authorizations, of which 100% were processed within the Commission’s speed-of-disposal goals.
- International Section 214 Authorizations and Satellite Licenses – The Commission granted 88 transfers of control and assignments of international section 214 authorizations, including 56 streamlined applications. Ninety-three percent of the streamlined applications were processed within the Commission’s speed-of-disposal goals. Of the 32 non-streamlined applications, 28 applications (88%) were processed within the speed-of-disposal goals. The other four applications were part of a major transaction that was acted on by the Commission.
- Submarine Cable Landing Licenses – The Commission also acted upon five submarine cable landing license transfer-of-control/assignment applications, of which three applications were streamlined. All of these applications were processed within the Commission’s speed-of-service goals.
- Space Stations and Earth Stations – Commission staff processed 312 transfer-of-control/assignment applications for earth station licenses and 17 transfer-of-control/assignment applications for space station licenses.
- Major Transfer of Control Requests Approved
  - XM Satellite Radio Holdings, Inc. and Sirius Satellite Radio, Inc. - On July 25, 2008, the Commission approved the application of XM and Sirius to transfer control of the licenses and authorizations held by the companies and their subsidiaries for the provision of satellite digital audio radio service. The FCC found that grant of the application, with voluntary commitments made by the Applicants, is in the public interest.
  - Tribune Media Company and Samuel Zell – On November 30, 2007, the Commission authorized the transfer of control of Tribune Company from the existing shareholders to Sam Zell. Accompanying the grants were time limited waivers of the newspaper/broadcast cross-ownership rule in several markets.
  - Clear Channel Communications, Inc., Thomas H. Lee Equity Fund VI, L.P. and Bain Capital (CC) IX, L.P. – On January 8, 2008, the Commission approved the transfer of control of over 1,000 radio licenses of Clear Channel from its public shareholders to private equity funds.
  - The DIRECTV Group, Inc. and Liberty Media Corporation – On February 25, 2008, the Commission approved the transfer of control of DIRECTV to Liberty Media subject to certain conditions to ensure that the transaction will serve Commission’s competition and diversity goals.
  - Verizon and Fairpoint - The Commission adopted an order approving the transfer of certain spectrum licenses and section 214 authorizations in Maine, New Hampshire, and Vermont from Verizon to FairPoint Communications. The Commission found that no significant public interest harms were likely to result from the merger, and that public interest benefits, including accelerated broadband deployment, were likely to occur.
  - AT&T and Dobson Wireless – The Commission approved the acquisition of Dobson Communications, a wireless service provider operating primarily in rural and suburban areas, by AT&T. To address potential public interest harms identified in the analysis of the transaction, approval was subject to certain conditions including divestitures in four market areas.

- ALLTEL and Atlantis Wireless – The Commission approved the acquisition of ALLTEL by Atlantis Holdings, ultimately controlled by TPG Capital and The Goldman Sachs Group.
    - AT&T and Aloha Wireless – The Commission approved the acquisition of Aloha, a wireless service provider, by AT&T.
    - T-Mobile and SunCom – The Commission approved the acquisition of SunCom, a regional wireless service provider, by T-Mobile.
    - Verizon Wireless and Rural Cellular Corporation – The Commission approved the acquisition of Rural Cellular Corporation, a wireless service provider operating primarily in rural and suburban areas, by Verizon Wireless. To address potential public interest harms identified in the analysis of the transaction, approval was subject to certain conditions including divestitures in six market areas.
    - Loral and Telesat – On October 3, 2007, the Commission approved a series of applications filed to allow 4363205 Canada Inc. to acquire control of a variety of U.S. space station, earth station and wireless licenses and international section 214 authorizations held by Telesat Canada, Able Infosat Communications, Inc., Loral Skynet Corporation, and Loral Skynet Network Services, Inc.
    - IB Stratos Global and Robert Franklin Trustee – On December 7, 2007, the Commission approved the transfer of domestic and international section 214 authorizations and Title III licenses held by three subsidiaries of Stratos Global, from Stratos Global to the Robert Franklin Trust.
    - Intelsat and Serafina – On December 19, 2007, the Commission granted a series of applications filed by Intelsat Holdings, Ltd. and Serafina Holdings Limited seeking consent to transfer control of Intelsat Holdings, Ltd., and its six subsidiary licensees to Serafina, a Bermuda company indirectly controlled by BC Partners Holdings Limited, a U.K.-based investment firm.
  - Major Transfer of Control Reviews Initiated – The Commission also began consideration of several major transactions requiring Commission approval to transfer control of authorizations.
    - Sprint Nextel Corp. and Clearwire Corp. – Applicants seek Commission consent to merge their Broadband Radio Service and Educational Broadband Service holdings into a new corporation (New Clearwire). Applicants also seek consent to transfer control of certain wireless licenses and authorizations to a new wireless broadband entity to be jointly owned by Sprint Nextel and Clearwire.
    - Verizon Wireless and ALLTEL – Applicants seek consent to transfer control of the wireless licenses and related authorizations held by ALLTEL to Verizon Wireless.
    - Inmarsat/Stratos – Applicants seek consent to transfer control of various Commission licenses and authorizations of Stratos Global Corporation and its Subsidiaries to Inmarsat.
- International Facilities Authorization – The Commission acted upon 276 international section 214 applications filed in connection with the provision of international telecommunications services to and from the United States. This includes 200 streamlined section 214 applications. Ninety-eight percent of the streamlined applications were processed within the Commission’s speed-of-disposal goals. Of the 76 non-streamlined applications, 44 applications (58%) were processed within the Commission’s speed-of-disposal goals. Another 29 applications were delayed pending review by the Executive Branch for law enforcement, national security, foreign policy and trade concerns, and were processed within the Commission’s speed of

disposal goals once the Executive Branch completed its reviews. In addition, 45 Special Temporary Authorization (STA) applications were processed.

- Submarine Cable Landing Authorizations – The Commission granted cable landing licenses for construction and landing of seven new submarine cables facilities, adding substantial international transmission capacity between the United States and other countries as well as between domestic points within the United States.
- Earth/Space Station Applications – The Commission processed 1667 earth station applications in an average of 58 days, and 179 space station applications were processed in an average of 118 days.
- Competition in the Video Distribution Market – The Commission engaged in actions to improve the competitive environment for multichannel video programming services.
  - Cable Franchising – On October 31, 2007, the Commission adopted rules that extended to incumbent cable operators rules which prohibit franchising authorities from unreasonably refusing to award competitive franchises for the provision of cable services.
  - Access to Multiple Dwelling Units by Video Providers – On October 31, 2007, the Commission banned the use of exclusivity clauses for the provision of video services to multiple dwelling units or other real estate developments.
- Joint Licensing Arrangement – Commission staff completed two transfers of U.S.-licensed satellites to the licensing jurisdiction of another country, i.e., Intelsat (to Germany) and Echostar (to Canada). Applications concerning these arrangements were granted within 270 days of completion of the joint licensing arrangement with the foreign regulator.
- Circuit Status Report – On February 19, 2008, the Commission released the annual Circuit Status Report, which reported the year-end status of capacity retained by U.S.-international facilities-based common carriers for international calls, private line services, and other services on a country-by-country basis over U.S. undersea cables, satellites and terrestrial links. The report included the following statistical findings:
  - Overall, the reported number of activated circuits grew by 25 percent from 2005 to 7,558,072 in year-end 2006.
  - By service type: International Message Telephone Service (IMTS) accounted for 9.6 percent of the total circuits used; International Private Line Services accounted for 48.7 percent of total circuits; and approximately 41.7 percent of total circuits were used for services other than traditional private line services (including data services).
  - By transmission type: Undersea cables accounted for 85.6 percent of the overall active transmission capacity; terrestrial links accounted for 14.2 percent; and satellite accounted for 0.2 percent.
- ORBIT Act Report to Congress – The Commission issued the eighth Orbit Act Report to Congress. The purpose of the Orbit Act is to promote a fully competitive global market for satellite communications services for the benefit of consumers and providers of satellite services and equipment by fully privatizing the intergovernmental satellite organizations, INTELSAT and Inmarsat. The Orbit Act requires the Commission to report annually to Congress on the progress made to achieve the purposes and objectives of the Orbit Act. The report describes the current status of the privatized intergovernmental satellite organizations and the many activities undertaken by the Commission to implement and enforce the requirements of the ORBIT Act.

- Satellite Licensing Orders – The Commission adopted several orders that will enhance competition among satellite space station and earth station providers, including :
  - Satellite Digital Audio Services (SDARS) Notice of Proposed Rulemaking and Second Notice of Proposed Rulemaking – This *Notice of Proposed Rulemaking and Second Notice of Proposed Rulemaking* seeks comment on rules and policies governing SDARS terrestrial repeaters. Terrestrial repeaters are designed to allow SDARS systems to fill in gaps in satellite coverage areas where direct reception of satellite signals is blocked and signal levels are inadequate to provide uninterrupted service. Terrestrial repeaters will increase the competitive options for customers in “urban canyons” between tall buildings, heavily foliated areas, and other places where obstructions could limit satellite service.
  - EchoStar Satellite Operating Corporation Memorandum Opinion and Order – This *Memorandum Opinion and Order* denied applications for review filed by DIRECTV Enterprises, EchoStar Satellite, and Telesat Canada seeking reversal of November 2006 licensing decisions granting Spectrum Five’s request to provide Direct Broadcast Satellite (DBS) service to U.S. consumers from two Netherlands-authorized satellites and EchoStar authority to construct a DBS satellite at “tweener” orbital locations.
- Twelfth Annual Report and Analysis of Competitive Market Conditions with respect to Commercial Mobile Services – The Commission submitted its Twelfth Annual Report to Congress on the state of competition in the commercial mobile radio services, pursuant to section 332(c)(1)(C) of the Communications Act. The Report focuses on the market conditions for these services and concludes that the market continues to behave in an intensely competitive manner that significantly benefits the American consumer.

***Promote pro-competitive and universal access policies worldwide:***

- Meetings with Foreign Regulators – The Commission met extensively with foreign regulators in order to foster competition in foreign markets and promote universal service policies.
  - The Commission coordinated and administered the International Visitors Program, hosting 61 meetings for over 486 visitors from 38 different countries.
  - The Commission provided staff who offered presentations at the U.S. Telecommunications Training Institute (USTTI) for courses entitled “Spectrum Management in the Civil Sector,” “Regulatory and Privatization Issues in Telecommunications,” “Laboratory Techniques in Support of Equipment Authorization Programs,” “Radio Spectrum Monitoring and Measuring,” “Radio Spectrum Monitoring Techniques and Procedures”, a Seminar and Workshop on “Competition Policy for Telecommunications,” and planned and coordinated all Commission-sponsored USTTI activities.
  - The Commission supported participation of FCC officials in bilateral, regional, and international consultations with officials from a number of countries, including China, Singapore, Canada, Korea, India, Mexico, Sweden, Germany, and the United Kingdom, to discuss U.S. policies on competition, convergence, spectrum management, 3G, and media issues, including the digital broadcasting Internet protocol TV (IPTV), the digital television transition, and cable television a la carte policies. The Commission also supported participation by FCC officials in the World Economic Forum; the 16th annual Global Forum to discuss convergence and building a collaborative knowledge society; and the West Africa ICT Road Map to Opportunities Conference.
  - Commission officials and staff attended, as part of the U.S. delegation, the 2008 OECD Ministerial Meeting, organized by the OECD Committee on Information, Computer and Communications Policy, which is held once every ten years. The focus of the 2008 Ministerial Meeting was “shaping policies for creativity, confidence and convergence in the

digital world.” At its conclusion, participating leaders signed a Declaration of Principles that sets out a roadmap to improve the communications policies that have helped the Internet become the economic driver that it is today and to ensure that they support its future development

- Commission staff worked with the State Department, NTIA, and USTR to negotiate a draft Declaration of Principles regarding the elimination of borders in telecommunications between the United States and Mexico with Dr. Rafael del Villar Alrich, Under Secretary of Communications of the Mexican Secretariat of Communications and Transportation.
- International Telecommunication Union (ITU) – The Commission participated in meetings across the radiocommunication (ITU-R), telecommunication (ITU-T) and development (ITU-D) sectors of the ITU to foster pro-competitive policies in foreign markets and promote universal service.
  - Commission staff participated in the Telecommunication Development Advisory Group (TDAG) and the Telecommunication Standardization Advisory Group (TSAG) to set priorities, formulate strategies, and prepare and implement the operational and management plans of the ITU-D and ITU-T sectors.
  - Commission staff participated in the Americas preparatory meeting for the World Telecommunication Standardization Assembly (WTSA) to develop regional consensus in advance of WTSA-08.
  - Commission staff participated in ITU-T Study Group 3 discussions of international calling issues and tariffs in other countries.

***Work to inform American consumers about their rights and responsibilities in the competitive communications marketplace:***

- Outreach Initiatives on DTV – The Commission continued its comprehensive consumer education and outreach program to provide consumers with information about the transition from analog to digital television (DTV) and to help them better understand new technology, terminology and products.
  - The FCC participated in a host of consumer and industry events and regularly updated its dedicated DTV Web site ([www.dtv.gov](http://www.dtv.gov)) and publications as regulatory and marketplace circumstances warranted.
  - The Commission also staffed exhibits and made presentations at various conferences and conventions across the nation. Some of these included: AARP Convention in Boston, MA; Annual National Hispanic Leadership Conference in Chicago, IL; National American Indian Housing Council Conference in Seattle, WA; Hearing Loss of America Association Annual Convention in Reno, NV; League of United Latin American Citizens Annual Convention in Washington, DC; National Association of the Deaf Annual Convention in New Orleans, LA; NAACP Annual Convention in Cincinnati, OH; Organization of Chinese Americans Annual Conference in Washington, DC; and the Black Expo events in Houston, TX, Indianapolis, IN and Oakland, CA.
- Telephone Consumer Protection Act (TCPA)
  - The Commission released a *Report and Order* amending its rules to require sellers and/or telemarketers to honor registrations with the National Do-Not-Call Registry until the registration is either cancelled by the consumer or the telephone number is removed by the database administrator. Under the amended rules, consumers no longer need to re-register their numbers every five years.
  - The Commission released a Declaratory Ruling clarifying that autodialed and prerecorded message calls to wireless numbers that are provided by the called party to a creditor in

connection with an existing debt are permissible as calls made with the “prior express consent” of the called party.

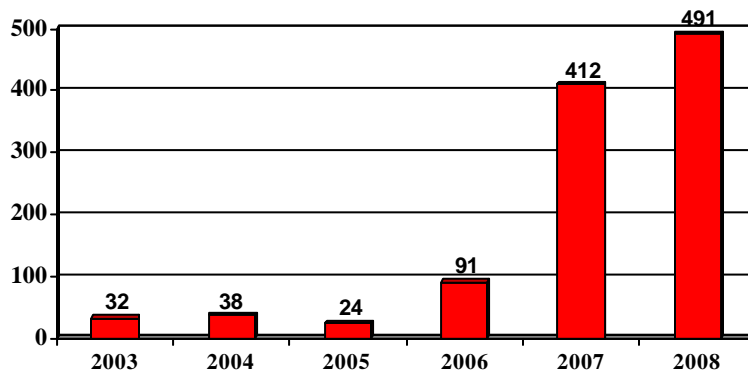
- **Slamming**
  - The Commission released an *Order* that modified the slamming rules regarding the content of independent third party verifications of a consumer’s intent to switch carriers. Specifically, third party verifications must now include the date of the verification and confirmation that the person on the call understands that a carrier change, not an upgrade to existing service, bill consolidation, or any other misleading description of the transaction, is being authorized. In addition, any description of interLATA or long distance service must specify that these services encompass both international and state-to-state calls.
  - The Commission issued a proposed forfeiture of \$5,084,000 against Horizon Telecom, Inc. Horizon apparently willfully or repeatedly failed to respond on a timely basis to 21 informal complaints served on it by the FCC’s Consumer and Governmental Affairs Bureau. Horizon apparently changed the preferred carriers of 125 consumers without proper authorization, the practice commonly known as slamming.

***Enforce the Commission’s rules for the benefit of consumers:***

In addition to efforts discussed above, the Commission took extensive action to ensure compliance with its rules in a variety of areas affecting consumer interests.

- **Junk Fax Protection Act** – The Commission issued 491 citations, and 51 Notices of Apparent Liability totaling \$8,355,000, and ten forfeiture orders totaling \$4,050,000, against violators of the Junk Fax Protection Act. This represents a 19% increase over last year, and a more than five-fold increase from the number of citations issued just two years ago.

**Citations Issued to Junk Fax Violators 2003 - 2008**



- **Do-Not-Call Requirements** – The Commission issued 438 citations, and four Notices of Apparent Liability totaling \$70,000, for violations of the do-not-call registry rules and company-specific do-not-call requirements. The number of citations issued increased nearly 14% compared to FY 2007. The Commission entered into a \$500,000 Consent Decree with NOS Communications, Inc. for violations of the do-not-call rules and requirements. The Commission issued 309 citations and two Notices of Apparent Liability totaling \$22,500, for prerecorded advertising violations.

- Customer Privacy – The Commission issued four Notices of Apparent Liability in the total amount of \$400,000 for CPNI-related apparent violations, and entered into two consent decrees totaling \$450,000 for CPNI-related violations. The Commission also issued two \$4,000 forfeiture orders against entities for failing to respond to Commission directives in CPNI-related investigations.
- Merger Conditions – In conjunction with a joint Department of Justice/Enforcement Bureau investigation, the Bureau adopted a consent decree relating to compliance by ALLTEL Communications Inc. with the terms and merger conditions contained in *Applications of Midwest Wireless Holdings, L.L.C. and ALLTEL Communications, Inc.* Pursuant to the accord, ALLTEL agreed, among other things, to pay the government an amount totaling \$1.235 million.
- Payphone Compensation - The Commission issued an order granting a complaint against ISS alleging failure to comply with Commission payphone rules that impose compensation, call tracking, and other obligations on “Completing Carriers.” The Commission ordered ISS to pay damages in the amount of \$574,073.07. The Commission also issued an order granting in part a formal complaint by Verizon seeking payphone compensation required by sections 64.1301(a) and (c) of the Commission’s rules.
- Investigations - The FCC’s goal is to resolve public safety interference complaints within one day; non-emergency interference complaints within one month; indecency complaints within nine months; and formal complaints within one year. The FCC attempts to resolve all other complaints requiring investigations within 15 months.

### **Enforcement Investigations Performance Results**

<b>Category</b>	<b>No. of Investigations Meeting Goal</b>	<b>No. of Investigations Not Meeting Goal</b>	<b>% Meeting Goal</b>
Public Safety Interference	156	0	100.00%
Non-Emergency Interference	1,115	46	96.04%
Formal Complaints	4	1	80.00%
Indecency Complaints <sup>13</sup>	158	3,886	3.91%
Other Investigations/Complaints	9,990	202	98.02%

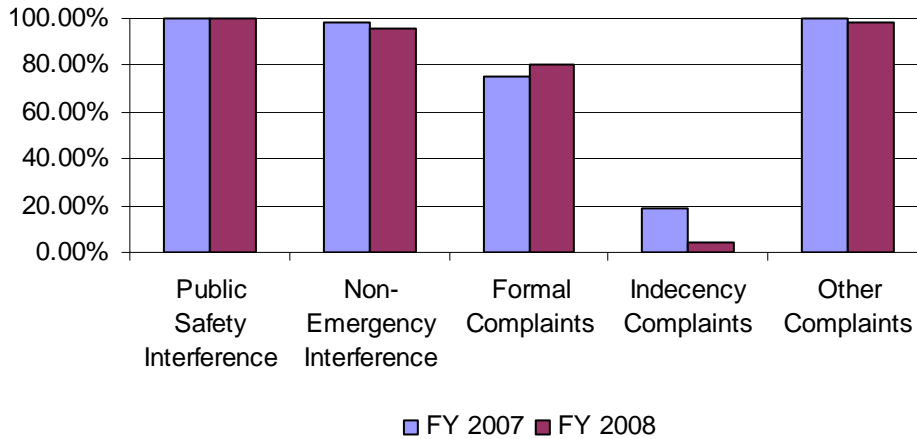
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<sup>13</sup> This number includes indecency investigations that are the subject of pending litigation in federal court.



The chart below compares enforcement investigations performance against the Commission's established goals for this fiscal year and FY 2007. The percentage of indecency complaints resolved within the standard timeframe has been low during the past two fiscal years, as the vast majority of complaints are the subject of pending litigation in federal court.

### Enforcement Investigations FY 2007 - 2008



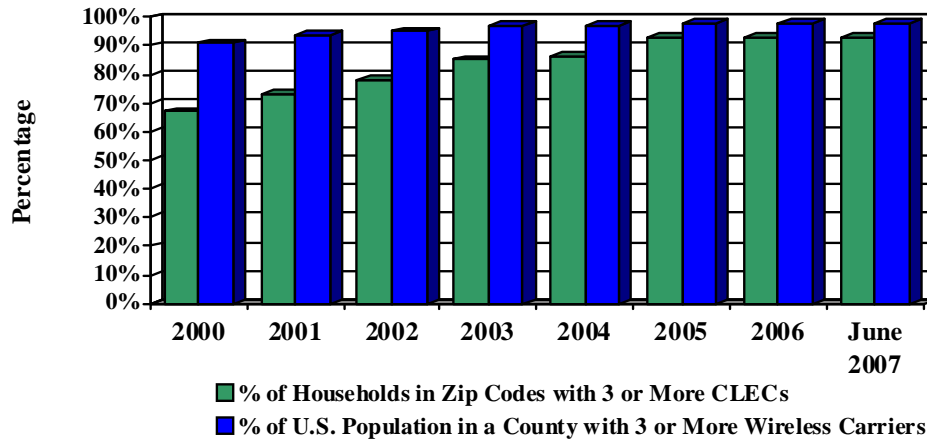
- Strengthening management of enforcement efforts – The FCC took significant actions to address a February 2008 Government Accountability Office report concerning management of the Commission's enforcement program. Multiple databases used to manage investigations made it nearly impossible to collect complete information, analyze data to identify trends, assess the effectiveness of the program, and allocate resources to key areas affecting consumers. In addition to establishing the output and efficiency goals shown under Investigations above, the Commission implemented the new Consumer Complaint Management System which will provide an end-to-end solution to tracking the progress of investigations, compiling management data on enforcement activities, and producing information to permit analysis of complaint trends and identify repeat offenders.

***FY 2008 PERFORMANCE INDICATORS***

**Increase the number of consumers and businesses who have a choice among wireless and wireline service providers**

The percentage of U.S. households living in zip codes served by three or more wireline local exchange carriers has climbed from 67% in 2000 to 93% in June 2007. Similarly, the percentage of the U.S. population living in counties served by three or more wireless carriers has climbed from 91% in 2000 to 98% in June 2007. (Year shown is calendar year unless otherwise noted.)

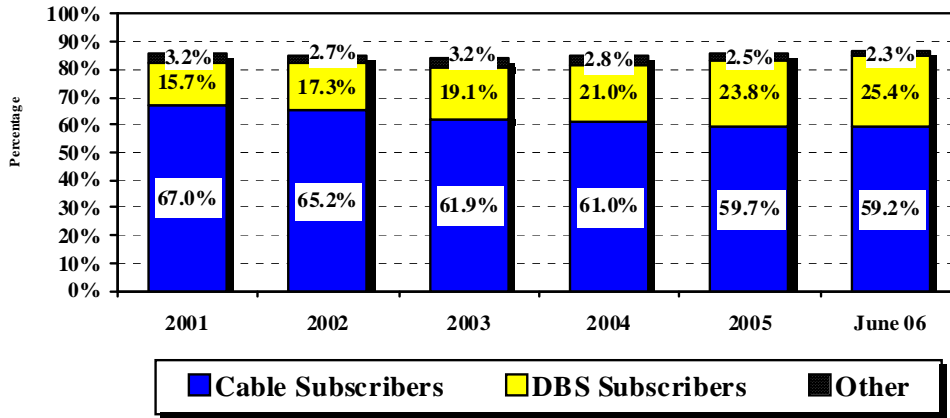
**Percentage of Population with Three or More Providers**



**Increase the percentage of households with competing providers for multichannel video programming and information services**

As of June 2006, 87% of the 110.2 million total U.S. television households subscribed to a multichannel video programming distribution service; 59.2% of all TV households were cable subscribers; 25.4% were direct broadcast satellite subscribers; and 2.3% subscribed to other MVPD services. Non-cable MVPD subscribers grew from 28.8 million households in June 2005 to 30.5 million households in June 2006, an increase of 5.9%. There are 14.4 million U.S. TV households that do not subscribe to an MVPD service and thus rely solely on over-the-air broadcast television for their video programming, representing 13 percent of all U.S. TV households. (Year shown is calendar year unless otherwise noted.)

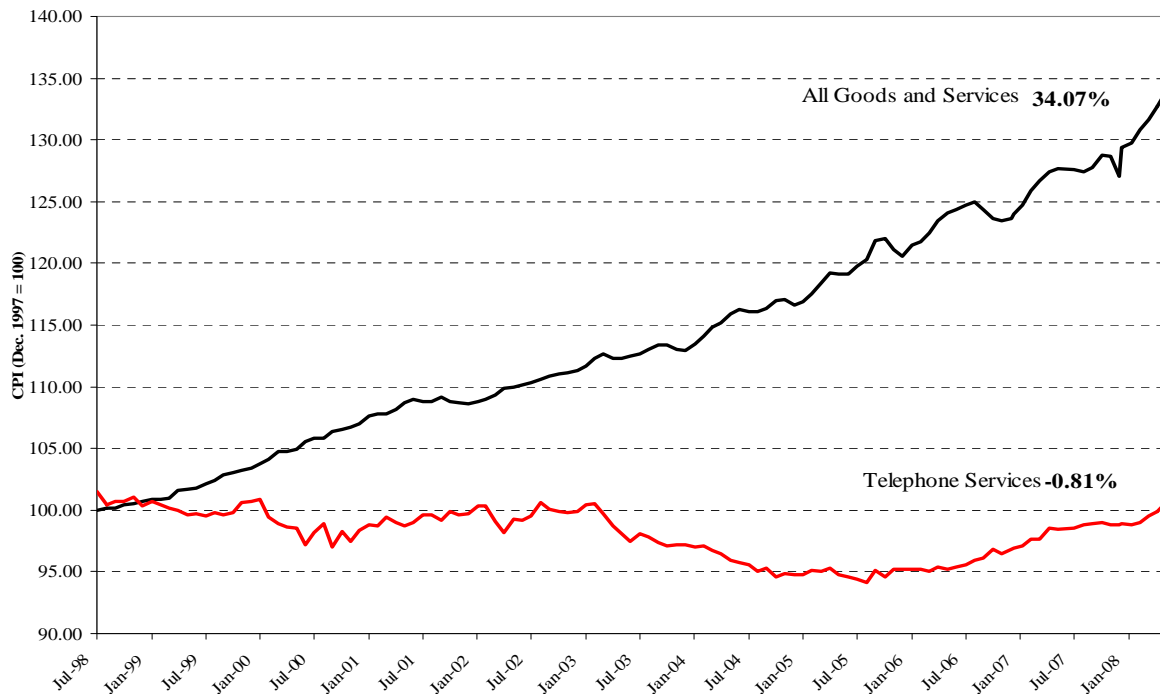
### MVPD Subscribers as a Percentage of TV Households



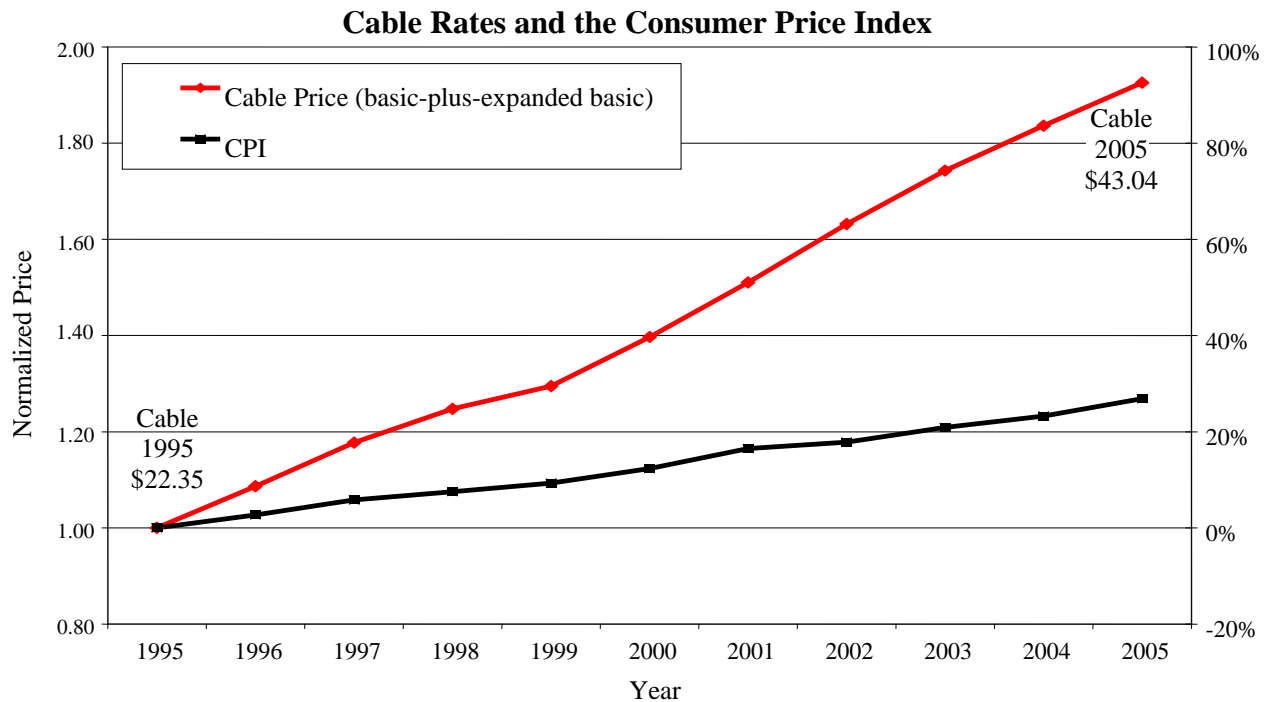
### Lower relative price for telecommunications services

The consumer price for telephone services has declined over the last decade when compared to the price of other goods and services. The chart below uses data obtained from the Bureau of Labor Statistics to compare the Consumer Price Index (CPI) for Telephone Services with the CPI for all goods and services, using July 1998 price levels as the base (equal to 100). The Telephone Services included in this index include Local Telephone Service, Long Distance Charges, Interstate Toll Service, Intrastate Toll Service, and Wireless Telephone Services. In contrast to a 34.07% increase in the CPI for all goods and services, measured from July 1998 to June 2008, the Telephone service price index has decreased 0.81%.

### Telephone Services and the Consumer Price Index

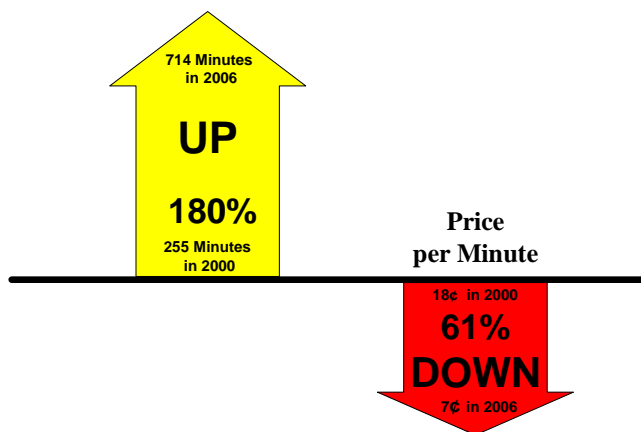


However, as shown in the chart below, since the period immediately preceding enactment of the Telecommunications Act of 1996, prices for cable services have risen by 93%.<sup>14</sup> (Year shown is calendar year.)



### Consumer prices for telephone services continue to fall

#### AVERAGE PRICE PER WIRELESS MINUTES OF USE PER MONTH 2000 TO 2006



The average price of wireless telephone calls has fallen since the beginning of the decade. As illustrated by the accompanying chart, the average price per wireless minutes of use per month for mobile telephone service, including both individual and business users, has fallen since 2000, down to seven cents per minute in 2006.<sup>15</sup> (Year shown is calendar year.)

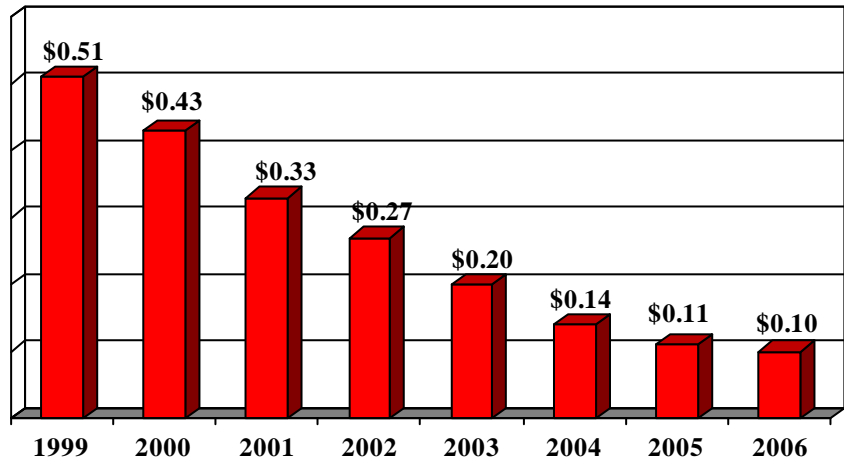
<sup>14</sup> Report on Cable Industry Prices (FCC 06-179), released December 27, 2006

<sup>15</sup> 12<sup>th</sup> Annual CMRS Competition Report (FCC 08-28), released February 4, 2008

## Decrease in the price for international calls

### Price Per Minute for An International Call

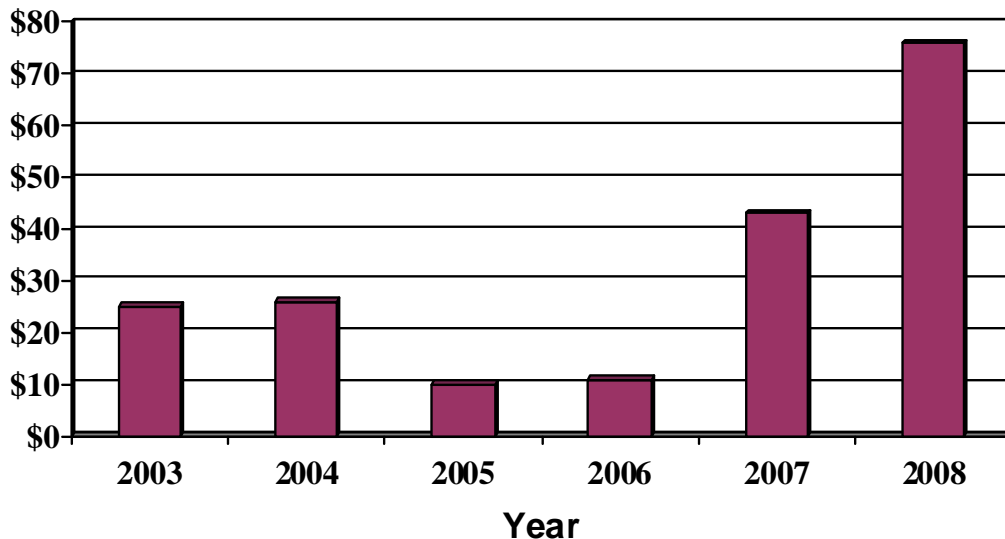
The average international calling rate for U.S. consumers fell from 51¢ per minute in 1999 to 10¢ per minute in 2006. (Year shown is calendar year.)



## Enforcement efforts increase to benefit consumers

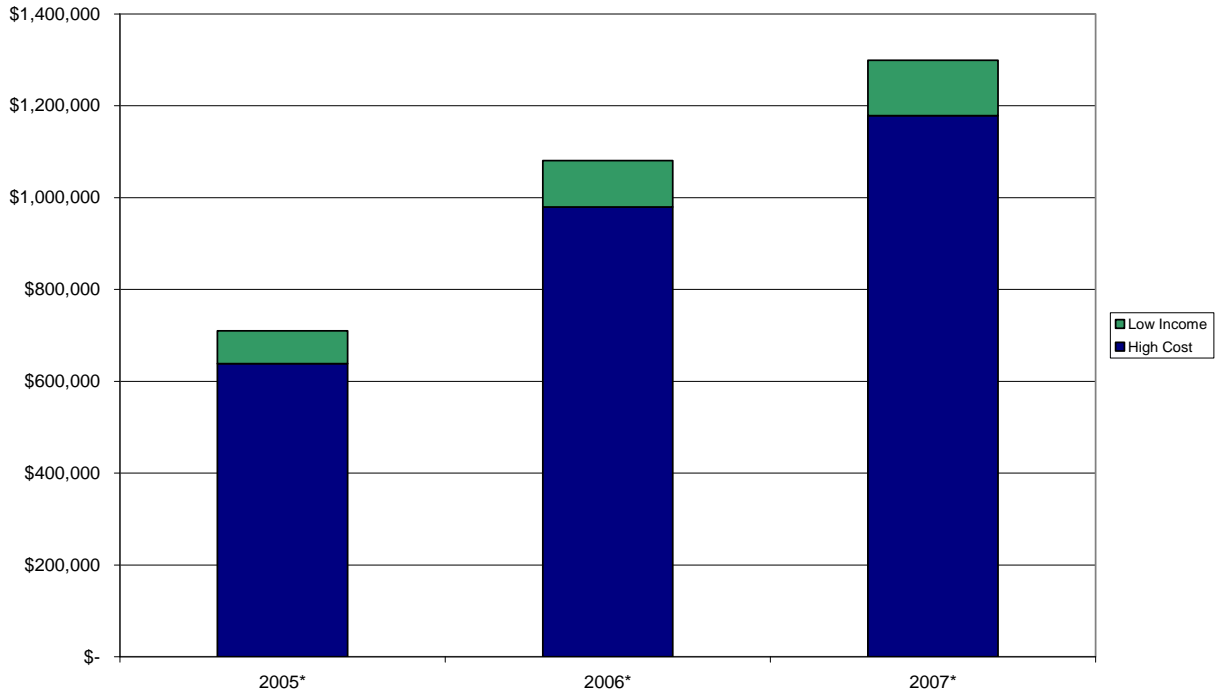
The Commission took 288 actions involving monetary forfeitures or payments negotiated through consent decrees for violations of FCC rules. These included issuing 247 Notices of Apparent Liability (NAL) in the amount of \$47,840,525.40 and negotiating 41 pre-NAL consent decrees in the amount of \$28,063,925.00. The chart below compares forfeitures assessed and payments negotiated for the past six years.

### Monetary Forfeitures Assessed and Payments Negotiated through Consent Decrees, Calendar Years 2003 through 2008 Dollars in millions



On May 1, 2008, the Commission released an order adopting an interim cap on the amount of high-cost universal service support disbursed to competitive eligible telecommunications carriers (CETCs). This action is a step toward reining in the explosive growth in high-cost universal service support. As the accompanying chart shows, CETCs received nearly \$1.2 billion in high-cost support in 2007, up from less than \$650 million in 2005.

**Competitive Eligible Telecommunication Carrier (CETC) Disbursements**  
(\$ in Thousands)



\*Note - These are calendar years. Data is from USAC's Annual Report.

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# ***SPECTRUM***

## ***Strategic Goal:***

***The Commission must facilitate efficient and effective use of non-federal spectrum domestically and internationally to promote the growth and rapid deployment of innovative and efficient communications technologies and services.***

The Commission is committed to fostering the rapid deployment of innovative and efficient radio communications technologies and services. Emerging wireless technologies could be used to provide ubiquitous, mobile broadband connections; encourage intermodal competition; and promote public safety and homeland security. The promise of such services, however, is dependent on the availability of spectrum. Because there is growing demand for rival uses of spectrum, creating a policy environment that effectively distributes and manages available spectrum is a critically important strategic objective for the Commission.

## ***FY 2008 PERFORMANCE GOALS***

- Ensure that the Nation's spectrum is used efficiently and effectively.
- Advocate U.S. spectrum interests in the international arena.

## ***FY 2008 PERFORMANCE HIGHLIGHTS***

***Ensure that the Nation's spectrum is used efficiently and effectively:***

- 700 MHz Auction – The Commission conducted an auction of 1,090 commercial licenses for significant amounts of spectrum in the 700 MHz band made available for use as a result of the digital television transition. Net winning bids for the licenses totaled nearly \$19 billion. The auction was conducted using “anonymous” bidding procedures in an effort to maximize efficient results. This was the first auction to make use of hierarchical package bidding for one large block of spectrum, which permitted package bids for all of that block's licenses on a nationwide basis or as individual regional licenses. In accordance with the Digital Television Transition and Public Safety Act of 2005, all proceeds from the auction were deposited in the Digital Television Transition and Public Safety Fund by June 30, 2008.
- Automatic Roaming – The Commission adopted an *Order* clarifying the obligations of commercial mobile radio service carriers to provide automatic roaming services under specified circumstances.
- Sunset of the Cellular Radiotelephone Service Analog Requirement – In early 2008, the Commission's requirement that cellular licensees provide analog service to subscribers and roamers whose equipment conforms to the Advanced Mobile Phone Service (AMPS) standard ended. As a result, the majority of cellular licensees have begun to transition their subscribers from analog to digital systems which are more spectrally efficient and offer a wider array of services and features. To assist consumers that were affected by the discontinuance of this



service, the Commission issued fact sheets and public notices apprising the public of the 800 MHz cellular analog to digital transition, and distributed the materials at numerous outreach events.

- Streamlining and Harmonization Proceeding – The Commission adopted an *Order* to revise the technical rules for the broadband Personal Communications Service and Advanced Wireless Service. These rules provide licensees additional flexibility by modifying power rules to use a power spectral density model rather than a hard power limit so that wideband systems are not at a competitive disadvantage with narrowband systems. They also provide licensees more flexibility by modifying the rules to allow for average rather than peak power measurements. These rule changes are more technologically neutral, and will better accommodate broadband technologies, especially in rural areas, by potentially reducing network infrastructure costs.
- 800 MHz Rebanding Implementation – The Commission continued to actively oversee the implementation of 800 MHz rebanding, which commenced in June 2005. The Commission provided direction to the 800 MHz Transition Administrator, particularly regarding the resolution of disputes, and worked with Sprint-Nextel and public safety stakeholders to address implementation issues. The Commission established benchmarks to ensure the timely clearing of the Channel 1-120 band by all incumbent licensees and provided guidance to licensees for completion of 800 MHz rebanding. In addition, the Commission issued 11 orders granting over 500 rule waivers to public safety licensees seeking extensions in order to complete rebanding on or before July 1, 2009, and granted partial relief to licensees requesting more lengthy extensions.
- Relocation of Broadcast Auxiliary Service – The Commission adopted several orders and a *Further Notice* that addressed completion of the transition of the broadcast auxiliary service (BAS) to frequencies above 2025 MHz. These actions allowed licensees the time necessary to complete the BAS transition while balancing the needs of the Mobile Satellite Service (MSS) to gain timely entry into the band.
- Low Power FM (LPFM) Radio Service – The Commission adopted an *Order* revising the ownership, eligibility and technical rules for the LPFM service in an effort to strengthen the long-term viability and promote the growth of the service. In a companion *Notice of Proposed Rulemaking*, the Commission sought comment on technical rules that could expand LPFM licensing opportunities.
- TV White Spaces – The Commission continued its work regarding the use of new low power devices in the television broadcast bands on channels not being used for authorized services, also known as TV White Spaces. Specifically, the Commission adopted an *Order* that would permit fixed low power devices to operate in these bands, adopted a *Further Notice of Proposed Rulemaking* seeking comment on the appropriate implementation of low power devices to ensure incumbent services are protected from harmful interference and on whether personal/portable devices could use this spectrum, performed laboratory bench tests to characterize the abilities of these prototype white space devices to detect TV and wireless microphone signals, and conducted a number of field tests of these prototype devices.
- Measurement Procedures for Wireless Devices – The Commission published several guidelines and measurement procedures for modular transmitters, hearing aid compatibility evaluations, and UNII transceivers. In addition, the Commission participated in meetings to develop harmonized standards for measurement procedures for various transmitters and hearing aid compatibility evaluations.

- Presidential Spectrum Initiative – The Commission actively participated with the National Telecommunications and Information Administration (NTIA) and Federal agencies regarding implementation of the President’s Spectrum Policy Initiative. The Commission designated 10 megahertz of spectrum in the 470-512 MHz band as part of a Spectrum Sharing Innovation Test-Bed and identified procedures for interested parties to conduct technology tests in that band. The Test-Bed is intended to provide a venue for demonstrating techniques to provide for better sharing between Federal and non-federal radio users.
- RF Safety Program – The Commission continued its efforts in regard to the Radio Frequency (RF) Safety Program, both with respect to equipment testing and the development of standards. The FCC released two new test procedures to address the simultaneous transmission conditions in today’s laptop computers and cell phones.
- Harmful Interference – The Commission investigated more than 1,175 complaints of unauthorized harmful interference. Among other things, the Commission resolved two investigations into FM modulators, including portable satellite radio receivers with built-in FM transmitters, by entering into consent decrees totaling approximately \$19.6 million.
- Revocation Proceedings – During FY 2008, the Commission issued an order of revocation and commenced several hearing proceedings before an administrative law judge to determine whether the licenses and authorizations of various wireless, broadcast, or amateur radio operators should be revoked, and whether forfeitures should be imposed.
- Unauthorized Operation of Stations – The Commission took enforcement actions, which proposed forfeitures totaling over \$94,000, assessed forfeitures totaling over \$50,000, and resulted in voluntary contributions totaling over \$32,000, for the unauthorized operation of facilities, including Private Land Mobile Radio Service stations, low power FM stations, Very Small Aperture Terminal (VSAT) systems, and satellite earth stations, and for the failure to file timely renewal applications.
- Unauthorized Radio Devices – The Commission investigated complaints about unauthorized and/or technically non-compliant radio frequency devices. For example, the Commission proposed a forfeiture of \$63,000 for the marketing of nine models of non-verified Class A digital devices such as computers and computer peripherals. The Commission also proposed forfeitures totaling \$30,000 for the marketing of radio frequency equipment, including noncompliant portable data terminals and uncertified 4.9 GHz aeronautical transmitters. In addition, the Commission entered into consent decrees resulting in voluntary contributions of over \$34,000 and the implementation of compliance measures to resolve investigations involving the unauthorized marketing of wireless broadband network devices and certain 4.9 GHz equipment used by public safety agencies to transmit real-time video and data. Moreover, the Commission also assessed forfeitures totaling over \$32,000 for the unauthorized marketing of police radar jamming devices and uncertified AM and FM transmitters.
- FM Broadcast Translator Service – The Commission adopted a *Notice of Proposed Rulemaking* proposing use of FM translators by AM radio broadcasters for fill-in service in a manner that would limit such operations to a station’s core service area. The Notice tentatively concluded that daytime-only AM licensees should be permitted to originate programming over FM translators during nighttime hours.

- Noncommercial Educational (NCE) FM Filing Window – The first NCE FM application filing window was conducted. 3,625 applications were received, of which approximately 1,000 applications have been processed (635 granted and 365 dismissed). These actions will significantly increase the number of authorized NCE FM stations.
- Efforts with Rural Utilities Service (RUS) to Facilitate Deployment of Broadband Service in Rural Areas – In consultation with the RUS of the U.S. Department of Agriculture (USDA), the Commission undertook numerous activities aimed at assisting rural communities in deploying wireless broadband networks in their communities. In direct support of this initiative, the FCC organized Rural Broadband Workshops to open dialogue and consultation as outreach to rural America regarding broadband deployment. Topics presented at the workshops included presentations depicting technology platforms currently available for broadband services, USDA funding set aside for broadband deployment, the Commission’s Rural Health Care Pilot program, and wireless spectrum access. The Commission also developed and launched a new, online web resource that makes available the expertise and resources of the Commission and USDA in a single, one-stop, easy-to-navigate location.
- Satellite Licensing Orders – The Commission adopted several orders authorizing satellite space station and earth station operators to use spectrum efficiently and effectively. In these orders, respectively, the Commission:
  - Adopted a framework in which 17/24 GHz Broadcasting-Satellite Service (BSS) space stations would operate at orbital locations spaced at four degree intervals. The Order also provided additional flexibility to 17/24 operators by allowing them, under certain circumstances, to operate their space stations at full power and with full interference protections at locations other than those specified in the four degree grid.
  - Granted a request for authority for aeronautical earth stations (AES) to communicate with the Brazilian-licensed satellite in various portions of the Ku-band over the North Atlantic Oceanic Region, thereby expanding the availability of two-way broadband connectivity to passengers and crew for international flights and enhance competition in an important sector of the mobile telecommunications market.
  - Granted blanket authority for domestic operation of up to 1,000 technically identical transmit/receive earth stations aboard commercial aircraft. The aircraft earth stations will provide two-way broadband communications for passengers and aircrew members aboard commercial airliners and private business jets, with access to email, the Internet, and corporate virtual networks.
  - Granted authority to operate up to four hundred technically identical mobile earth terminals (METs) that will be mounted on vehicles and used while in motion throughout the continental United States. These METs will provide Land Mobile-Satellite Service (LMSS), and will communicate with Fixed-Satellite Service satellites in geostationary satellite orbit, providing data communications to end users in vehicles.
  - Authorized the construction, launch, and operation 24 new satellites to replenish and enhance a non-voice, non-geostationary satellite orbit mobile satellite system, allowing the continued provision two-way messaging and asset tracking and monitoring services, and the augmentation of service with additional radiofrequency capacity.
  - Increased the spectrum available for the provision of Ancillary Terrestrial Component (ATC) service, and proposed to modify, pursuant to section 316, the Big LEO license to permit provision of ATC in the additional spectrum.

- Space Station Milestone Compliance – Reviewed space station licensees’ compliance with system implementation milestones and revoked licenses where necessary to make unused spectrum available to new applicants.
- Streamlined Processing of Earth Station Applications – The Commission implemented streamlined procedures for processing earth station applications communicating with Inmarsat satellites in the L-band.
- Licensing and Equipment Authorization – During FY 2008, the Commission conducted the following licensing and equipment authorization activities:
  - Processed approximately 432,000 applications and notifications relating to wireless services. More than 97 percent of these applications were processed in 90 days or less, and approximately 90 percent were processed in 30 days or less.
  - Processed approximately 18,000 applications for all broadcast services.
  - Coordinated 9,243 non-government frequency assignments and 69,967 federal agency assignments with NTIA.
  - Granted more than 9,100 new equipment authorizations (including those certified by private Telecommunications Certification Bodies (TCBs)) overseen by the Commission.
  - Granted 206 individual earth station applications processed in an average of 58 days. Granted 179 space station applications in an average of 118 days.
  - Granted 20 new blanket authorizations, including VSATs, Earth Stations on Vessels (ESVs), AMSS, and METs.
  - Granted eight authorizations to secondary and non-conforming users.
  - Granted 17 modification applications authorizing space station operators to relocate licensed satellites and provide service to U.S. customers from the requested orbital locations.
  - Authorized five foreign-licensed satellites to provide satellite services in the United States.
- Spectrum-Related Investigations and Assessments – While the number of spectrum-related forfeiture actions decrease by more than half in FY 2008 compared to last fiscal year, the amount of forfeitures assessed doubled. The chart below compares the last three fiscal years:

<b>Fiscal Year</b>	<b>Forfeiture Actions</b>	<b>Forfeitures Assessed</b>	<b>Investigations Closed</b>
<b>2006</b>	<b>125</b>	<b>\$13,086,500</b>	<b>4,667</b>
<b>2007</b>	<b>165</b>	<b>\$10,894,955</b>	<b>6,388</b>
<b>2008</b>	<b>79</b>	<b>\$21,000,275</b>	<b>6,311</b>

- Auctions of Spectrum Licenses – The Commission held three spectrum auctions during FY 2008:

Auc. #	Service	Auction Open-Close Date	# of Licenses/ Construction Permits in Auction	# of License s/ CPs Won in Auction	# of Winning Bidders	# of Small Businesses /New Entrants <sup>16</sup>	# of Licenses Won By Small Businesses/ New Entrants	Net Winning Bids
73	700 MHz Band	Jan. 24-Mar. 18 2008	1,099	1,090	101	56	379	\$18,957,582,150
77	Closed Cellular Unserved	June 17, 2008	1	1	1	*	*	\$25,002
78	AWS-1 & Broadband PCS	Aug. 13-20, 2008	55	53	16	10	38	\$21,276,850

\* Because no bidding credit was available, data was not collected.

***Advocate US spectrum interests in the international arena:***

- 2007 World Radiocommunication Conference – Commission staff participated in the ITU-R World Radiocommunication Conference 2007 (WRC-07). Staff assisted in developing and coordinating proposals for twenty-eight WRC-07 agenda items with NTIA, the State Department, and private industry. Significant progress was made in securing international spectrum allocations for new services and protecting incumbent services from interference. The international deployment of future generations of terrestrial wireless systems known as international mobile telecommunications (IMT) was a commercial centerpiece of the WRC-07 agenda, and required the Conference to consider which spectrum bands should be identified for IMT and the amount of globally harmonized spectrum for promising IMT services.
- International Telecommunication Union (ITU) – Commission staff worked to advance U.S. spectrum policies in international working groups addressing satellite, terrestrial, and unlicensed devices (e.g., Wi-Fi, Ultrawideband). Specifically, agency staff participated in:
  - The ITU’s Eighth Annual Global Symposium for Regulators where discussions included wireless and mobile roaming.
  - ITU-R Working Party meetings including: Working Parties 5A (land mobile service excluding IMT/amateur service), 5B (maritime mobile services), and 5C (fixed wireless systems); 5D (IMT); Working Parties 6A (terrestrial broadcasting delivery), 6B (broadcast service assembly and access), and 6C (program production and quality assessment) of Study Group 6; Study Group 7 and Working Parties 7A (time signals and frequency standards), 7B (space radiocommunications), 7C (remote sensing), and 7D (radio astronomy); and the Joint Task Group of Study Groups 5 and 6 (JTG 5-6;/ mobile applications in the band 790-862 MHz).
  - The U.S. preparatory process with the State Department and NTIA for developing and coordinating initial U.S. preliminary views for World Radiocommunication Conference 2011 (WRC-11). Represented the U.S. at the ITU WRC-11 Conference Preparatory Meeting and at regional preparatory meetings with regulators from Europe, Asia and the Americas.

<sup>16</sup> Small businesses include “entrepreneurs” qualified to bid on certain broadband PCS licenses in “closed” bidding. New entrants are an identified category in broadcast auctions; however, no broadcast auctions were conducted during FY 2008.

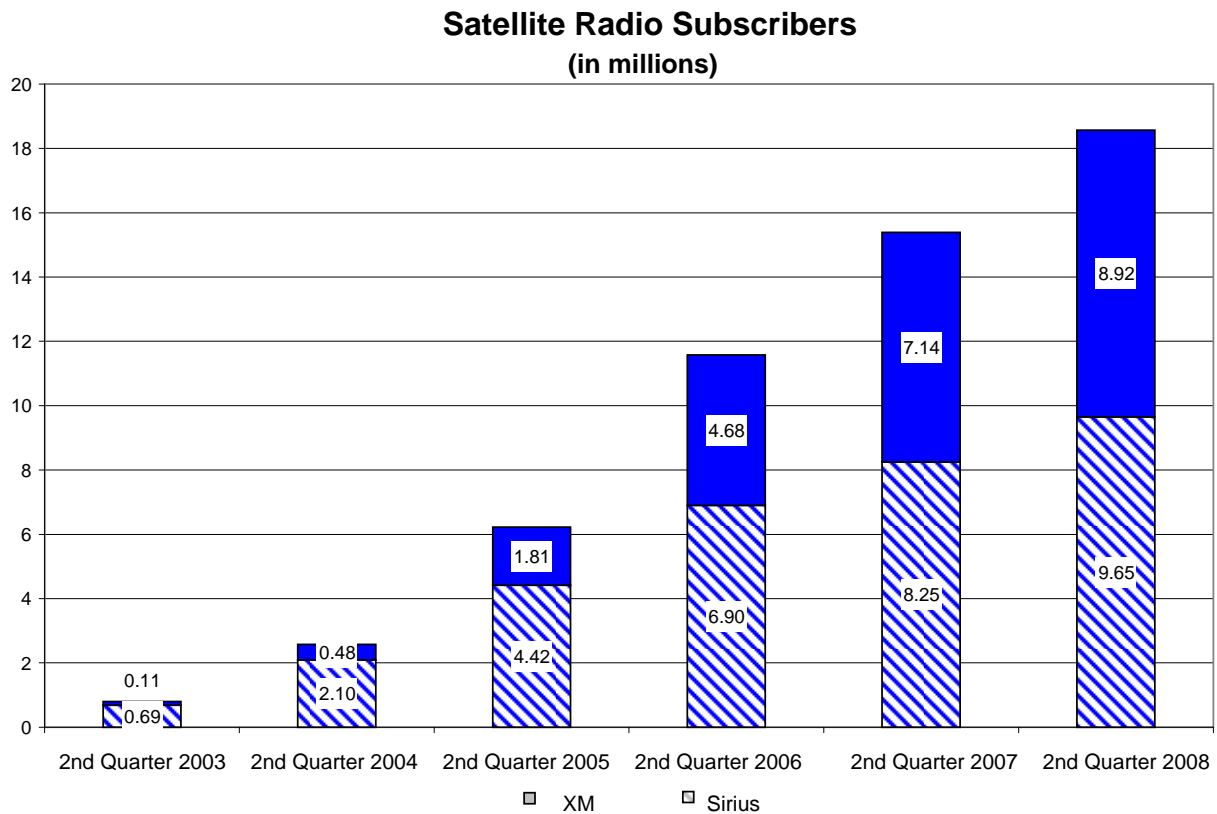
- Bilateral, regional and international consultation – The Commission worked to secure spectrum and minimize interference through advocacy in bilateral, regional, and international consultations, coordinations, and study groups. Specifically, Commission staff participated at CITELE PCCII, the regional meeting for spectrum in order to achieve consensus on Inter-American proposals. Commission staff successfully completed satellite coordination efforts with countries in Europe, Asia, and North America and participated in the IMO COMSAR working group to consider issues pertaining to the long-range identification and tracking of ships, satellite services (Inmarsat and COSPAS-SARSAT), criteria for provision of mobile-satellite communication systems in the Global Maritime Distress and Safety System, initial IMO positions for the World Radiocommunication Conference 2011 and advancements in HF and VHF maritime radiocommunication.
  
- Intelsat/International Telecommunications Satellite Organization (ITSO) – In response to a formal State Department request, an *Order* was issued to modify the satellite licenses of Intelsat to add conditions to promote future compliance with the ITSO Agreement. The action was instrumental in enabling the State Department to resolve longstanding controversies between Intelsat and ITSO.
  
- International Coordination Activities – Commission staff completed the following coordination agreements/arrangements:
  - In October 2007, completed two operator-to-operator coordination arrangements regarding six U.S. satellite networks with seven Canadian satellite networks within the Ka-band frequency range.
  - In December 2007, completed an Administration-to-Administration coordination agreement regarding one U.S. satellite network with one UK satellite network within the Ka-band frequency range.
  - In December 2007, completed an Administration-to-Administration coordination agreement regarding five U.S. satellite networks with two Pakistan satellite networks within the C-band frequency range. Completed an Administration-to-Administration coordination agreement regarding five U.S. satellite networks with two Pakistan satellite networks within the Ku-band frequency range.
  - In December 2007, completed an operator-to-operator coordination arrangement regarding eight U.S. satellite networks with four Korean satellite networks within the C-band frequency range. Completed an Administration-to-Administration coordination Agreement regarding eight U.S. satellite networks with four Korean satellite networks within the Ku-band frequency range.
  - In December 2007, completed an operator-to-operator coordination arrangement regarding one U.S. satellite network with two Luxembourg satellite networks within the Ka-band frequency range. Completed an Administration-to-Administration coordination agreement regarding one U.S. satellite network with two Luxembourg satellite networks within the Ka-band frequency range.
  - In December 2007, completed an operator-to-operator coordination agreement regarding two U.S. satellite networks with three Canadian satellite networks and 26 UK satellite networks within the L-band frequency range.
  - In January 2008, completed one Administration-to-Administration coordination agreement regarding one U.S. satellite network with several Dutch satellite networks within the C-band frequency range spaced greater than 10 degrees apart.
  - In April 2008, completed operator-to-operator coordination arrangements regarding 500 U.S. satellite networks with 278 UK satellite networks within various frequency bands.

- In May 2008, completed an Administration-to-Administration coordination agreement regarding two U.S. satellite networks with three Canadian satellite networks and 26 UK satellite networks within the L-band frequency range.

***FY 2008 PERFORMANCE INDICATORS***

**Increase the number of subscribers to new services that make efficient use of spectrum**

This chart displays subscriber growth in the SDARS from the second quarter of 2003 to the second quarter of 2008. Since June 2007, the number of SDARS subscribers has increased by 21%, from 15.39 million subscribers to 18.57 million subscribers.



# ***MEDIA***

## ***Strategic Goal:***

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

The FCC develops and modifies media regulations and policies to address a changing marketplace. It is a challenging task due to: 1) changing ownership patterns; 2) legal challenges to FCC rules and policies; 3) converging markets and industries; and 4) increasingly rapid changes in technologies employed by service providers.

These factors, consistent with statutory directives, have led the FCC to place a high priority on fully understanding the current media marketplace so that it can appropriately reformulate its media ownership regulations and competition policies. The FCC will continue to examine whether current media regulations are achieving statutory policy objectives and will determine how changes in regulations may affect competition, diversity, and localism.

The transition to digital broadcast technologies ensures that the public is served by an efficient and competitive set of media services. In addition, the spectrum recovered by the transition to digital television can be used for other important services, such as public safety and advanced wireless services. The FCC works to facilitate the timely development and deployment of digital services.

### ***FY 2008 PERFORMANCE GOALS***

- Facilitate the transition to digital television and further the transition to digital radio.
- Reevaluate media ownership rules in light of a changing marketplace and judicial reviews
- Enforce compliance with media rules.

### ***FY 2008 PERFORMANCE HIGHLIGHTS***

#### ***Facilitate the transition to digital television and further the transition to digital radio:***

- DTV Transition in Wilmington, North Carolina – On September 8, 2008, Wilmington, NC became the first television market to transition from analog to digital television. Commission staff attended over 400 outreach events in the five-county Wilmington market, and distributed more than 85,000 publications. Partnerships were established, particularly at the grassroots level, that were critical in enabling the Commission to contact “at risk” groups – senior citizens, non-English speakers and minorities, people with disabilities, low income consumers, and those living in rural or tribal areas. The consumer education campaign that was conducted appears to have been effective. Prior to the transition, the National Association of Broadcasters released a survey indicating that 97 percent of Wilmington residents were aware of the switch to digital. Consumer calls received by the Commission at its call center indicated that the vast majority of the 400,000 television viewers in the Wilmington-area were aware of the transition and prepared for it. The early digital switch in Wilmington will assist the FCC and the nation to identify any issues that may need to be addressed prior the nationwide digital television transition on February 17, 2009.



- Digital Television Transition Rulemaking – The Commission acted in several proceedings intended to facilitate a smooth transition from analog to DTV broadcasting.
  - DTV Table of Allotments – The Commission released a *Seventh Memorandum Opinion and Order and Eighth Report and Order* in March, 2008 which addresses petitions for reconsideration of the Seventh Report and Order. This action was essential to keep stations on track to build their final digital facilities.
  - DTV 3rd Periodic Review – On December 22, 2007, the Commission adopted the *Report and Order* in this proceeding. These periodic reviews are conducted in order to assess the progress of the transition and make any necessary adjustments to the Commission’s rules and policies to facilitate the introduction of DTV service and the recovery of spectrum at the end of the transition.
  - Carriage of Digital Broadcast Television Signals – Last year, the Commission adopted a *Third Report and Order* to ensure all cable subscribers, including those with analog TV sets, can view broadcast television after the transition to digital television is completed. On March 19, 2008, the Commission adopted similar measures with respect to satellite carriage of local digital broadcast television.
  - DTV Consumer Education Initiative – On February 19, 2008, the Commission adopted several proposals relating to consumer education about the digital television transition. Broadcasters, multichannel video programming distributors, manufacturers and others are required to convey DTV transition information to consumers through the end of the transition.
  
- DTV Outreach - The Commission undertook a substantial consumer education and outreach program to provide consumers with information about the DTV transition. Based on a recognition that some communities of consumers will be disproportionately impacted by the transition, or are harder to reach than the population at large, the Commission engaged in targeted measures to reach these groups. These communities are senior citizens, non-English speakers and minorities, people with disabilities, low income consumers and rural and tribal consumers.
  - In August 2008, Chairman Martin announced a tour of 81 cities nationwide plus Puerto Rico to increase awareness about the upcoming transition to digital television. The Commission identified television markets in which the largest number of viewers will have to take action to be prepared for the transition five months from now. Specifically, the Commission identified 81 target television markets for specific DTV outreach, including all those markets in which more than 100,000 households or at least 15 percent of the households rely solely on over-the-air signals for television. Within these markets, the Commission is aiming to educate those groups most vulnerable to the transition such as senior citizens and non-English speakers. The Chairman and all of the Commissioners, as well as other Commission staff, will fan out to these markets to raise awareness and educate consumers in the days leading up to the digital television transition on February 17, 2009.
  - The Commission’s DTV-related web sites, including <http://www.dtv.gov>, recorded nearly 36 million hits during the past year. The dtv.gov website serves as a central location for consumers, DTV partners and media outlets to find information about the transition. The site features a variety of detailed consumer friendly advisories, fact sheets and other documents related to the transition. Much of this information is formatted so that it can be easily downloaded and printed.
  - The FCC secured Congressional approval to use \$12 million in prior year funds to supplement its FY 2008 DTV outreach budget of \$2.5 million.
  - Staff created new DTV publications and updated existing materials to reflect recent developments and consumer feedback. Sample titles produced include a guide entitled *Setting Up Your Digital-to-Analog Converter Box*, an advisory entitled *The DTV Transition*

*and Over-the-Air Viewers Along U.S. Borders*, and a fact sheet entitled *Antennas and Digital Television*. DTV publications have been produced in eighteen languages and in large font format, Braille and in audio format for the sight impaired.

- Commission staff made multiple visits to all 50 states, as well as the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, to speak regarding the transition. The direct outreach measures included Town Hall meetings, exhibition booths at highly trafficked local events such as fairs and festivals, presentations at conferences, DTV awareness sessions, and “Train the Trainer” sessions
  - The Commission hosted seven DTV Workshops. Each event addressed unique issues or communities. The discussions lead to concrete measures to improve the Commission’s outreach in that area. The specific workshops held were: *Global Focus on Consumers* (September 2007), *Seniors* (November 2007), *Minority/Non-English-Speaking Communities* (December 2007), *Rural Consumers and Consumers on Tribal Lands* (January 2008), *Persons with Disabilities* (February 2008), *Low-Income Consumers* (April 2008), and *Digital-to-Analog Converter Boxes* (June 2008).
  - Media outreach was conducted in order to achieve coverage for the DTV transition by local and national media including those media outlets that address targeted audiences. A television satellite media tour conducted in February had more than one million audience impressions. Radio public service announcements were distributed to full-power radio stations nationwide and outdoor billboards were posted in 19 markets.
- Digital-to-Analog Converter Boxes
    - On September 15, 2008, Chairman Martin sent a letter to the Executive Director of the Consumer Electronics Retailers Coalition (CERC) requesting that its member retailers agree to carry at least one model of converter box with analog pass-through capability that would be priced at \$40, allowing the cost to be covered by the government’s coupon program to subsidize the cost of converter boxes.
    - On September 23, 2008, Chairman Martin sent a letter to the Executive Director of CERC and the President and CEO of the Consumer Electronics Association asking for their help in encouraging the availability of battery packs for converter boxes and battery-powered DTV receivers as a matter of public safety for consumers to obtain emergency information when power outages occur.
  - International Matters – The Commission continued to implement existing DTV Memoranda of Understanding with Canada and Mexico to ensure that broadcasters can maximize facilities along the border. Specifically, Commission staff coordinated the applications for new DTV facilities that affect cross-border operations.
  - Meetings with Foreign Regulators – The Commission staff met extensively with foreign regulators to exchange information on experiences with the Digital Television transition, and provided technical assistance for migration to DTV for developing countries.
    - Commission staff participated in the US-EU Information Society Dialogue with officials from the European Union to discuss the digital economy, including new media technologies.
    - FCC officials participated in discussions regarding DTV transition issues with international leaders at the OECD Ministerial Meeting in Seoul, Korea, and in similar bilateral discussions in China, Singapore and at the bilateral meetings of the India ICT Working Group. Commission officials and staff also participated in videoconferences regarding DTV transition issues with officials from Sweden, the United Kingdom, and Germany.

- Implementation of Section 629 – The Commission took actions during the reporting period to further the directive of section 629 of the Act to facilitate a competitive market for navigation devices by acting on 46 requests by cable operators to waive the requirement to separate set-top security functionality into a separate cableCARD.

***Reevaluate media ownership rules in light of a changing marketplace and judicial review:***

- Media Ownership Proceeding - Section 202(h) of the Telecommunications Act of 1996 requires the Commission to periodically review its broadcast ownership rules and to modify or eliminate those rules it found no longer to be “necessary in the public interest as a result of competition.” The Commission completed a careful review of the media ownership rules in light of the evolving media landscape.
- Promoting Diversification of Ownership – In December 2007, the Commission adopted a *Report and Order and Third Further Notice* containing a number of measures to increase participation in the broadcasting industry by new entrants and small businesses, including minority- and women-owned businesses.
- Localism Proceeding – In December 2007, the Commission issued a *Report* focusing on how broadcasters are serving the interests and needs of their local communities. The *Report* included a *Notice of Proposed Rulemaking* seeking comment on proposals to promote localism.
- Public Hearings - On October 31, 2007, the Commission conducted a Localism hearing in Washington, DC. Media Ownership hearings were held in Chicago in September 2007 and Seattle in November 2007. The purpose of these hearings was to gather information from consumers, industry, civic organizations, and others on FCC regulations, and competition, localism and diversity in the media markets.

***Enforce compliance with media rules:***

- DTV Enforcement and Education – The Enforcement Bureau’s field offices have made nearly 8,000 visits and given approximately 1,000 presentations to constituent groups in 50 states and 3 U.S. territories regarding the DTV transition. Enforcement activities in the DTV area included:
  - As of September 18, 2008, inspecting 4,233 stores and websites and issued 369 citations notifying retailers of their violations of the Commission’s rules governing labeling of analog-only television receivers.
  - For the relevant period, the Commission issued 15 Notices of Apparent Liability totaling \$4.5 million and five consent decrees totaling \$236,000 against retailers for possible violations of the labeling rules.
  - The Commission issued three Notices of Apparent Liability totaling \$3.3 million and one Forfeiture Order totaling \$1.266 million for violations of the Commission’s rules prohibiting the importation or interstate shipment of television receivers incapable of receiving digital signals.
  - The Commission issued three Notices of Apparent Liability totaling \$8.8 million and 10 consent decrees totaling \$10.8 million for possible violations of the Commission’s rules requiring certain V-chip technology in digital television receivers.
  - The Enforcement Bureau issued one Notice of Apparent Liability in the amount of \$51,000 against a company for failing to notify its customers of the DTV transition as required under the Commission’s rules.

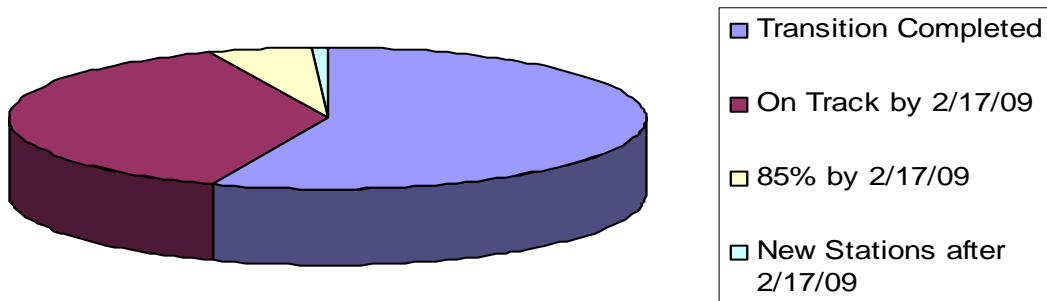
- As part of its efforts to assess the training of retail employees on the DTV transition and the NTIA converter box coupon program, Commission field agents visited 1,489 stores and conducted 1,438 interviews of store managers in 47 states and the Commonwealth of Puerto Rico.
- Sirius/XM Consent Decrees - The Commission entered into consent decrees with satellite radio providers XM and Sirius that provided for a total of approximately \$19.6 million in voluntary contributions to resolve apparent violations involving the unauthorized marketing of FM modulators and the unauthorized or variant operation of their terrestrial repeaters. The consent decrees also imposed various operating and reporting requirements intended to ensure future compliance.
- Media Enforcement - The agency imposed Notices of Apparent Liability totaling some \$137,500 for violations of rules governing the broadcast of telephone conversations, maintenance of a main studio, station identification, sponsorship identification, transfer of control, the use of non-commercial underwriting announcements and the conduct of station-sponsored contests. Notices of Apparent Liability issued to broadcasters and cable systems for failure to maintain a complete, accessible public file totaled some \$70,000. On January 25, 2008, the Commission issued a Notice of Apparent Liability for more than \$1.4 million against over 50 ABC stations for carrying an NYPD Blue episode with female nudity.
- Cross-Border Activities with Mexico and Canada
  - Commission staff, in conjunction with the State Department, engaged in numerous discussions with both Mexico and Canada on a number of cross-border issues.
  - Negotiations have been ongoing with Canada and Mexico to reach agreement on a DTV Table of Allotments for the border area.
  - The Commission acted on 8,720 Northbound and 2,600 Southbound wireless coordinations between the U.S. and Canada.
  - Commission staff engaged in negotiations to create a new Memorandum of Understanding with the Mexican Secretaria de Comunicaciones y Transportes, which would permit more opportunities for Low Power TV operations in the border area.
  - Commission staff participated in the meeting of the Mixed Commission, also known as Comision Mixta Encargada de Resolver Asuntos de Radiointerferencia (CMERAR), to resolve cases of interference to FCC licensees, Homeland Security, and other Federal law enforcement agencies along the U.S./Mexican border.

## FY 2008 PERFORMANCE INDICATORS

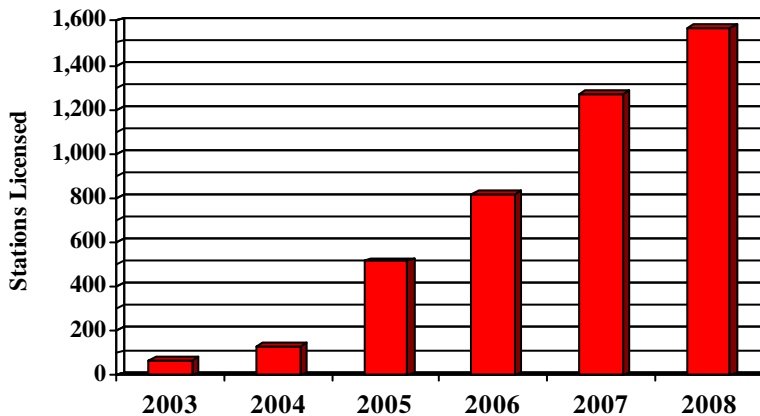
### Continue progress in the transition to digital television and radio

As of August 31, 2008, 1,813 full power television stations had DTV channels. Of those, nearly 56% (1,012 stations) have completed their post-transition digital facilities. Thirty-eight percent (688 stations) have filed status reports or otherwise indicated that they are on track to complete construction by the February 17, 2009 deadline. Approximately 5 percent (97 stations) will take advantage of the flexibility offered by the Commission in the *Third DTV Periodic Review Report and Order* and will be serving at least 85 percent of their service population on February 17, 2009, with final operations beginning sometime thereafter. In addition, 13 stations have been granted construction permits or have been approved for new digital facilities. These applicants and permittees without current analog facilities are not required to construct before 2/17/2009.

### Status of DTV Transition - August 31, 2008



### Digital Terrestrial Radio



Implementation of AM and FM in-band, on-channel (IBOC) hybrid radio grew steadily during FY 2008, rising to a total of 1,570 stations operating with digital radio authorizations. (All years end on June 30<sup>th</sup>.)

# ***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.***

In the aftermath of Hurricane Katrina, Americans were reminded of the importance of reliable, readily available, and interoperable communications – for emergency personnel responding to the tragedy, for individuals communicating with family and friends, and for the Nation as a whole, anxious to stay informed of ongoing events on a minute-by-minute basis. The telecommunications, broadcast, and cable industries that the Commission regulates are critically important to our national well being in times of crisis. The reliance of numerous other critical industries, including banking, transportation, and energy, on the communications infrastructure further underscores the importance of that infrastructure and the Commission's role in ensuring that it is operational.

Through its regulatory proceedings and important partnerships with other government entities and industry, the Commission works to fulfill its responsibilities in promoting public safety, homeland security, and network protection, interoperability, redundancy, and reliability. The Commission aims to do the following:

- Develop policies that promote access to effective communications services in emergency situations by public safety, health, defense, and other emergency personnel, as well as consumers in need;
- Evaluate and strengthen measures for protecting the Nation's communications infrastructure;
- Facilitate rapid restoration of the U.S. communications infrastructure and facilities after disruption by any cause;
- Coordinate with industry and other federal, state, tribal, and local agencies on matters of public safety and homeland security.

## ***FY 2008 PERFORMANCE GOALS***

- Promote the reliability, security, and survivability of the communications infrastructure.
- Facilitate deployment of public safety technology.

## ***FY 2008 PERFORMANCE HIGHLIGHTS***

### ***Promote the reliability, security, and survivability of the communications infrastructure:***

- Promoting State and Nationwide Interoperability – Commission staff coordinated state and local government authorities to facilitate VHF and UHF interoperability channels north of line A with Canada as required by the US/Canada Treaty. Channels allocated for nationwide interoperability in the U.S. are not protected under the international treaty and therefore require frequency coordination with Canada, which may use these channels for non-public safety purposes.
- Communications Network Surge Management in Emergencies Summit – The Commission hosted a Summit on Communications Network Surge Management in Emergencies. The Summit examined how communications networks are managed during mass emergency situations.
- Interoperability Stakeholder Outreach – During the past year, Commission staff participated in numerous Public Safety stakeholder events to promote information about Commission activities in such areas as 700 MHz licensing and 800 MHz rebanding. For example, Commission staff attended four meetings of the National Public Safety Telecommunications Council (NPSTC), a federation of organizations whose mission is to improve public safety telecommunications and interoperability. Commission staff also attended the April 2008 national meeting of Regional Planning Committees (RPCs) which included fifty-five 700 MHz RPCs nationwide. In addition, Commission staff attended events hosted by the Association of Public Safety Communications Officials (APCO) and the National Association of Broadcasters (NAB).
- Facilitating Access to Non-Public Safety Channels Pursuant to Section 337 – The Commission released three orders resolving twenty applications that sought authority to use spectrum allocated outside the land mobile public safety pool of frequencies, pursuant to section 337 of the Communications Act.
- Recommendations of the 9/11 Commission Act of 2007 – The Commission, in consultation with the Department of State, the Office of Emergency Communications of the Department of Homeland Security, and the Office of Management and Budget submitted a report to Congress on the status of cross border interoperability issues between the U.S. and Mexico and the U.S. and Canada on November 2, 2007.
- Emergency Relief and Disaster Recovery – The Commission operated disaster recovery teams at headquarters and deployed Commission staff on-scene for disaster recovery for the Midwest floods, Hurricane Dolly, Tropical Storm Eduard, Tropical Storm Fay, Hurricane Gustav, Tropical Storm Hanna, and Hurricane Ike. These responses were performed in the Commission's role as a member of Emergency Support Function #2 (Communications), and in its role as a support organization to the FEMA Incident Management Assistance Team (IMAT).
- Emergency Preparedness – The Commission reviewed its COOP plans and developed new Mission Essential Functions (MEFs) for the agency. The new MEFs were also used to develop a new Primary Mission Essential Function (PMEF). This PMEF shows which elements of the Commission's functions support the National functions during an Emergency Preparedness event. Commission staff members also assisted in drafting and editing several Emergency Preparedness documents including a revised FCC All Hazards Response Plan.

- Continuity of Operations Plan Exercises – Commission staff members assisted in development of a realistic scenario and in managing the interagency COOP exercise in May, 2008. The Commission received an “all green” (all good) score for the exercise.
- Priority Services - The Commission continues to provide oversight of the Telecommunications Service Priority (TSP) and Wireless Priority Service (WPS). Due in part to Commission staff publicizing these programs, working to reduce tariffs, and coordinating enrollment with the Department of Health and Human Services and NCS, among others, TSP enrollment for the healthcare sector rose by 63% and for state and local governments rose by 11%. WPS enrollment rose by 74%. Of note, with Commission data and staff support, the interstate TSP tariff for a major carrier dropped from \$345 per circuit to \$30 per order.
- Communications Assistance for Law Enforcement Act (CALEA) – During the past 12 months, Commission staff reviewed over 1000 System Security and Integrity (SSI) plans submitted by VoIP and other broadband Internet-based service providers subject to CALEA. SSI plans detail company procedures in connection with the processing of authorized surveillance requests from law enforcement, and include vital company contact information. A subset of this information has been incorporated into a FBI-maintained centralized database that is made available to federal, state, and local law enforcement nationwide.
- Completed obligations under the WARN Act – The WARN Act obligated the Commission to facilitate the establishment of a voluntary Commercial Mobile Alerting System by enlisting stakeholders in the development of technical requirements followed by a series of rulemakings to instantiate these requirements in a working system. Chairman Kevin J. Martin chaired the Commercial Mobile Services Alert Advisory Committee (CMSAAC), which issued its technical requirements on October 12, 2007. The Commission went on to issue the *Notice of Proposed Rulemaking* on matters pertinent to the Commercial Mobile Alert System on December 14, 2007, and three *Reports and Orders* in April, July, and August 2008.
- Implementing Recommendations of the 9/11 Commission Act – The Commission completed a Report to Congress on back-up emergency communications as well as the Joint Advisory Committee on Communications Capabilities of Emergency Medical and Public Health Care Facilities. The Report to Congress was delivered on January 20, 2008 and included a detailed analysis of communications system vulnerabilities as well as an examination of various alternatives for public safety entities to provision back-up communications services in the event of a disaster.
- Telecommunications Service Priority Circuit Restoration Review – The Commission reviewed carrier compliance with our rules for Telecommunications Service Priority for circuits that suffered an outage as a consequence of the Midwest floods in June 2008. This review included an analysis of carrier records and interviews with customers, and was intended to improve our understanding of the implementation and effectiveness of our rules in this area.
- Case Study of Emergency Communications Performance during the Minneapolis Bridge Collapse of August, 2007 – Working directly with local officials, Commission staff gathered technical data, developed models, and performed associated analysis to evaluate the performance of existing communications systems used by emergency responders during the Minneapolis bridge collapse.



- Activation of the Disaster Information Reporting System (DIRS) – The Commission activated DIRS as part of the National Level Exercise in May 2008. Service providers submitted information directly based on the exercise scenario and DIRS produced reports for the Joint Telecommunications Resource Board on time.
- 700 MHz Public/Private Partnership - Evaluated the inability to attract a winning bid for the D Block in the 700 MHz Auction (Auction No. 73), which closed on March 18, 2008. On May 14, 2008, the Commission sought comment on rules to establish a public/private partnership between the 700 MHz D Block licensee and the licensee of the 700 MHz public safety broadband spectrum for the purpose of constructing and operating a nationwide, interoperable public safety broadband network. On July 30, 2008, the Commission held an *en banc* hearing in Brooklyn, New York, to obtain expert testimony on the appropriate rules for the partnership and on the need for interoperable public safety networks. Finally, on September 25, 2008, the Commission adopted a *Third Further Notice of Proposed Rulemaking* that proposes licensing the 700 MHz D Block spectrum as part of a revised 700 MHz Public/Private partnership that will maximize the public safety and commercial benefits of a nationwide, interoperable broadband network in the 700 MHz band.
- Motorola Waiver Request – Commission staff granted a waiver to permit Motorola, Inc. to acquire VHF Public Coast spectrum and provide it to third parties to satisfy public safety and other first responder requirements.
- LMCC Request – In response to a request by the Land Mobile Communications Council on behalf of the Part 90 land mobile frequency coordinators, Commission staff clarified the standard for coordinating centralized trunked systems so as to provide requisite protection to, and avoid interference from, mobile-only operations.
- ReconRobotics Waiver Request – Commission staff sought comment on a waiver request by ReconRobotics, Inc. to permit operation by public safety and critical infrastructure personnel of a remote-controlled, maneuverable surveillance robot designed for use in areas that may be too hazardous for human entry.
- Enforcement of Public Safety Rules - The Commission took aggressive enforcement action to ensure compliance with its public safety rules in areas such as tower painting, lighting, and fencing requirements; RF emission limits; and unauthorized operation of radiofrequency signals. Among other actions, the Commission enforced its rules governing E911, resulting in contributions by four entities to the U.S. Treasury totaling \$2,850,000. Commission staff also took action against entities that were marketing equipment that operates in restricted frequency bands. Finally, Commission staff investigated and resolved over 200 interference or other complaints related to public safety communications.
- Emergency Alert System (EAS) Enforcement -- The Commission took 28 enforcement actions regarding its EAS rules totaling \$177,000.
- Enforcement of Network Outage Requirements -- The Commission entered into a consent decree with T-Mobile USA to resolve possible violations of Part 4 of the Commission's rules regarding the reporting of network outages. T-Mobile agreed to pay \$250,000 and develop a compliance training program as well as internal records to improve outage reporting.

- Section 214 Applications -- The Commission routinely refers to the Executive Branch all section 214 applications that involve ten percent or greater direct or indirect foreign ownership. The Commission also refers to the Executive Branch all requests for greater than twenty-five percent indirect foreign ownership of common carrier, aeronautical en route and aeronautical fixed radio licenses pursuant to section 310(b)(4). The Commission referred to the Executive Branch for coordination 149 such applications or requests.
- Cross-Border Coordination for 800 MHz – Throughout FY 2008, Commission staff, in conjunction with the State Department, worked to amend existing Bilateral Agreements with both Canada and Mexico to facilitate the Commission’s 800 MHz transition.
- Cross Border Coordination for 30 MHz – In accordance with the U.S.-Canada Above 30 MHz Agreement, Commission staff worked to coordinate licenses with Canada in the above 30 MHz band.
- Intergovernmental Coordination - Commission staff worked to ensure that there was no disruption in the availability of key satellite earth station facilities that are used by the Navajo Nation to provide public safety communications to its members in various locations, including Arizona and New Mexico.
- Public Safety Licensing – The Commission processed 35,469 applications and notifications for public safety-related licensing activities involving the wireless services. Approximately 99 percent were processed in 90 days or less.

***Facilitate deployment of public safety technology:***

- Health Care Summit on Emergency Communications, Response and Recovery – On November 1, 2007, the Commission hosted, in conjunction with the U.S. Department of Health and Human Services, a Health Care Summit on Emergency Communications, Response and Recovery. The Summit focused on hospital emergency communications plans and preparedness efforts, including the use of alternative technologies to bolster response capabilities.
- 911 Call Center Operations and Next Generation 911 Technologies Summit - On February 6, 2008, the Commission hosted a summit on issues relating to the deployment and use of Next Generation 911 technology and the coordination of those efforts among the communications industry, manufacturers and Public Safety Answering Points.
- Summit on Pandemic Preparedness – On September 18, 2008, the Commission hosted a summit focusing on communications and coordination between the health care sector, first responders, government and the communications industry in preparation for a pandemic. Discussions highlighted ways that communications may be expanded and enhanced in response to a pandemic and how the communications industry will serve an instrumental role in such a response.
- E911/Wireless Location Accuracy Requirements – The Commission adopted a *Report and Order* requiring wireless licensees subject to Commission-mandated standards for E911 Phase II location and reliability to satisfy these standards defined by the coverage area of a PSAP. On March 12, 2008, the Public Safety and Homeland Security Bureau issued an *Order*, staying for six months the September 11, 2008 compliance date for the first phase of implementing the above

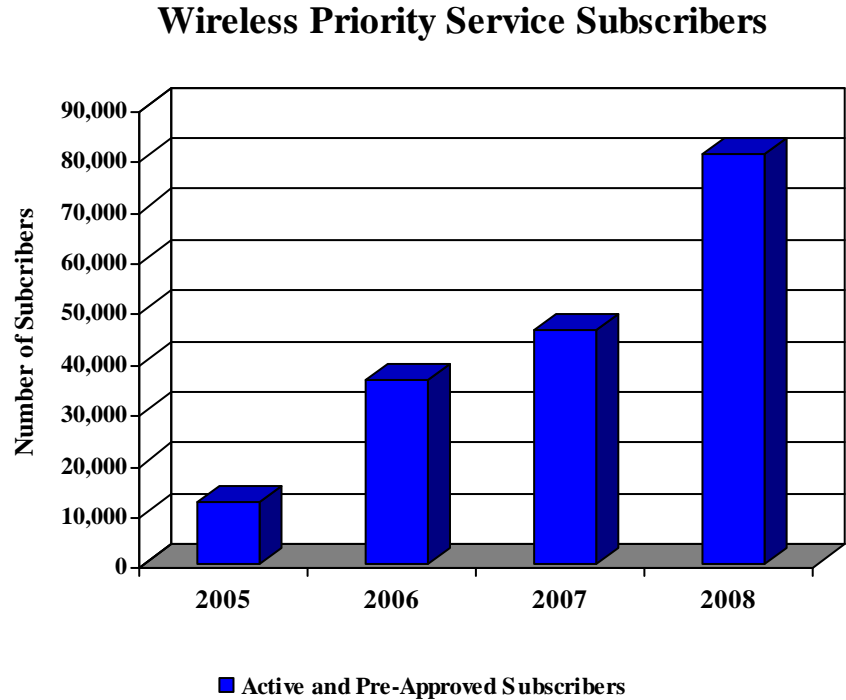
location accuracy standards. Thereafter, on March 25, 2008, the D.C. Circuit Court of Appeals stayed the Commission's location accuracy standards rules.

- Fraudulent 911 Calls – On April 15, 2008, the Commission released a *Notice of Inquiry* granting a petition filed by the public safety community regarding the number of fraudulent calls from non-service initialized (NSI) phones and seeking comment, analysis, and information on the following areas: (1) the nature and extent of fraudulent 911 calls from NSI devices; (2) concerns with blocking NSI phones used to make such calls and suggestions for making blocking a more viable option for carriers; and (3) other possible solutions to the problem.
- Exploring Alternatives to Assess Communications Capabilities in an Emergency - The Commission has developed a technical solution to help assess a community's communications damage immediately following an emergency. The Commission has entered into an agreement with FEMA that Commission staff and equipment will deploy to emergency locations with the FEMA IMAT team for rapid communications damage assessment.
- International Maritime Organization (IMO) – The Commission collaborated with the U.S. Coast Guard and the Department of Homeland Security on matters before the IMO. The IMO has undertaken a comprehensive effort to build a global maritime security and domain awareness infrastructure so that governments and industry have proper guidance to meet the challenges to protect shipping and enhance port security.
- International Telecommunication Union (ITU) – Agency staff collaborated with the State Department and NTIA to ensure that inappropriate standards were not adopted addressing applications of cell phone broadcasting for public alert systems, and worked to foster best practices for promoting public safety infrastructure.

## ***FY 2008 PERFORMANCE INDICATORS***

### **Increasing Wireless Service Priority Participation**

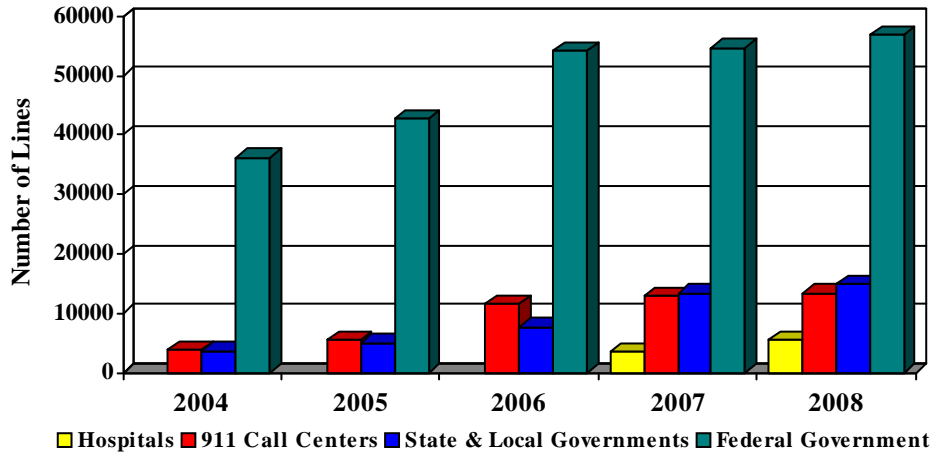
WPS is a Federal program that authorizes cellular communications service providers to prioritize calls over wireless networks. Participation in the WPS program is voluntary. The FCC sets the rules and policies for the WPS program; the National Communications System, a part of the U.S. Department of Homeland Security, manages the WPS program. In FY 2008, the Commission began an outreach program to increase participation in WPS. From August 1, 2007 to July 31, 2008, WPS subscribership increased from 46,142 to 80,803, an increase of 75%. The WPS program facilitates the deployment of public safety technology and increases the chances that critical users, such as first responders, will be able to use cell phone services in an emergency. (All years end on July 31<sup>st</sup>.)



### **Increasing Telecommunications Service Priority Participation**

The Commission established the TSP program to support priority restoration of communications services that support national security and emergency preparedness (NS/EP) missions during disasters, including terrorist attacks. The National Communications System (NCS) oversees day-to-day operation of the TSP program. Any Federal, state, or local government entity that relies on telecommunications services to accomplish its NS/EP mission can qualify for TSP. Although all 911 call centers would qualify for the TSP program, only a small percentage of 911 call centers participate. In FY 2004, the Commission began an outreach program to inform 911 administrators of the TSP program and to expedite their enrollment. At the beginning of August 2007, a total of 12,905 911 call center circuits were enrolled in the TSP program. At the end of July 2008, a total of 13,384 911 call center circuits were covered by the TSP program. This amounted to a 4% increase in 911 call center circuits enrolled in TSP. (All years end on July 31<sup>st</sup>.)

## Telecommunications Service Priority Participation



At the beginning of August 2007, state and local governments had 13,318 circuits enrolled in the TSP program; by the end of July 2008, a total of 14,798 state and local government circuits were covered. This change amounted to an 11% increase in covered state and local circuits. The TSP program increases the reliability of essential NS/EP communications services by minimizing out-of-service times. As a result, these circuits were made more reliable, thus helping to achieve the Commission’s TSP objectives.

# ***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 has committed to making fundamental changes to become a more responsive, efficient, and effective agency capable of facing the technological and economic opportunities of the new millennium.

## ***FY 2008 PERFORMANCE GOALS***

- Become an easier organization to do business with by integrating systems, processes, and interfaces.
- Create and sustain an organizational culture that encourages innovation, accountability, and continual improvement.
- Ensure effective communications with consumers, Congress, the communications industry, and Federal, State, tribal, and local agencies.

## ***FY 2008 PERFORMANCE HIGHLIGHTS***

### ***Easier Organization to Do Business With:***

- Cultivating Public Participation and Transparency - The Commission took unprecedented steps to inform the public about the items that it is considering voting on and to obtain public input on the issues before it.
  - The Commission brought to light the items that are on circulation internally to be voted on by the Commissioners by listing these items on the agency's internet site ([http://www.fcc.gov/fcc-bin/circ\\_items.cgi](http://www.fcc.gov/fcc-bin/circ_items.cgi)) and updating the list weekly.
  - The Chairman's Office now makes topics selected for consideration at the Commission's open meeting known to the public three weeks prior to the upcoming monthly meeting, which is two additional weeks public notice over the prior agenda notification practice of the Commission.
  - The Commission conducted eight public hearings across the United States, from New York to California, to receive expert testimony on important issues before the Commission. These hearings included topics such as broadband network management, the future of broadband, the impact of early termination fees on consumers, overcoming barriers to financing for minority and woman owned communications businesses, public safety communications, media ownership, and localism. These hearings are an integral means for the Commission to receive input from a wide variety of sources in a public proceeding that encourages dialogue and debate from diverse points of view from both inside and outside of Washington, DC.

- Upgraded the Commission's automated licensing and permitting functionality
  - Enhancements were made to the Commission's Universal Licensing System (ULS) to support the electronic filing of the long form applications (FCC Form 601) for the 700 MHz auction and the Advanced Wireless Services and Broadband Personal Communications Service auction.
  - In response to a petition filed by the Society of Broadcast Engineers and supported by several broadcasters, the Universal Licensing System was enhanced to allow mobile Broadcast Auxiliary Service TV pickup (TP) licensees the option to identify their stationary, receive-only sites to facilitate coordination with TP operations above 2 GHz by licensees that must protect or coordinate with such operations.
  - Several modifications and enhancements were made to benefit the users of the Commission's Tower Construction Notification System which enables tower builders to notify federally recognized Indian Tribes, Alaska Native Villages, Native Hawaiian Organizations, and State Historic Preservation Officers of their proposed construction, as required under section 106 of the National Historic Preservation Act and the Commission's rules, to protect archaeological resources and sites of traditional religious and cultural importance.
  - Efforts continue to reconfigure the 800 MHz band to reduce harmful interference to public safety radio systems. Data and functions in the Universal Licensing System have been updated to accommodate the data provided by the 800 MHz Band Transition Administrator and Nextel. Search functions have been developed that will allow interested parties to search vacated spectrum for possible relocation options.
  - Efforts are ongoing to implement an electronic filing system for the Section 106 Compliance under the National Historic Preservation Act and the Commission's Nationwide Programmatic Agreement for new tower and collocation submissions which will automate and expedite the exchange of documentation and correspondence required by the agreement.
  - The Commission deployed modifications in the ULS to support filing for nationwide, non-exclusive licenses in the 3650-3700 MHz band. To date, 386 applications for nationwide non-exclusive licenses have been granted.
  
- Electronic submission of CPNI data – The Commission created an electronic submission process to verify annual compliance with the Consumer Proprietary Network Information (CPNI) rules. The Commission's Electronic Comment Filing System (ECFS) was modified so that required filers could file their certifications electronically.
  
- Electronic submission of international telecommunications filings – The FCC launched an e-filing module to provide the option of electronic submission for certain telecommunications filings in lieu of filing through the Commission's Office of the Secretary. This made it simpler to file applications and additional information related to an application and for interested parties to file pleadings and other filings related to applications filed with the International Bureau.

***Culture That Encourages Innovation, Accountability, and Continuous Improvements:***

- Improved the Universal Service Fund (USF) by reducing waste, fraud and abuse
  - Revised and improved the Commission's Memorandum of Understanding (MOU) with the Universal Service Administrative Company (USAC) with key changes focusing on procurement improvements, information security practices, safeguarding confidential information, loss of service notification, and improving the quality of customer service.

- Directed USAC to take steps to prevent or reduce improper payments, including linking executive compensation to improper payment reduction, requiring increased public transparency into USAC payments, and directing USAC to strengthen its internal controls.
  - The Commission performed monthly reviews of USAC's administrative expenses. All beneficiary audit reports were reviewed and recommendations prepared to reduce waste, fraud and abuse.
  - The FCC worked with USAC to ensure that corrective action plans were established for hundreds of audit findings stemming from Office of Inspector General audits of USF beneficiaries and contributors.
  - USAC was directed to work to change its fiscal year end to match the FCC's fiscal year end to avoid redundancy in current financial audits of USF that cover overlapping financial reporting periods. This change should result in cost savings on audit contracts.
  - A new monthly review process was put in place to ensure that the USF funds held outside of the U.S. Treasury are fully protected (collateralized) against bank defaults.<sup>17</sup>
  - The Commission conducted a fraud risk assessment and internal control analysis of USF and identified weaknesses to be strengthened.
  - The Commission promoted the transparency of USAC's operations by requiring public disclosure of contracting actions in quarterly and annual reports.
  - The Commission is working with USAC to improve the quality of performance measures, the quality of data gathered in response to those measures, and the usefulness of that data in monitoring and enhancing USAC's performance.
- Improved Telecommunications Relay Service (TRS) funding through a review of the funding mechanism
    - Directed the administrator of the TRS Fund, the National Exchange Carrier Association, Inc. (NECA), to improve its internal controls to further safeguard the fund.
    - Initiated a procurement to select, through competitive procurement procedures, an Administrator of the TRS Fund. By engaging in a competitive procurement process, the Commission intends to improve and strengthen the management, administration, and oversight of the \$800 million TRS Fund.
    - The Commission performed monthly reviews of the administrative expenses of the TRS administrator, the National Exchange Carrier Association (NECA).
    - The Commission conducted a fraud risk assessment and internal control analysis of TRS and identified weaknesses to be strengthened.
    - NECA was directed 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.
  - Strengthened Internal Controls and Financial Management – For the second consecutive fiscal year, the FCC received a clean financial audit opinion with no material weaknesses reported by the auditors. In order to continue providing reliable financial reporting, the Commission further increased its efforts to improve its internal controls and financial management. The Financial Operations Center conducted risk assessments of its operations during the fiscal year, and worked to mitigate any risks that were identified during the previous year's risk assessment process. Moving forward, the Commission is designing new methods to perform even deeper testing of its

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<sup>17</sup> In 2006, the Commission rejected a USAC proposal to maintain USF monies in non-governmental securities, including securities issued by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). As a result of the Commission's oversight, USAC has been required since 2006 to maintain balances of USF monies in U.S. Treasury instruments.



internal controls. A team of internal auditors was established to perform in-depth testing of internal controls with a new area targeted for testing each quarter.

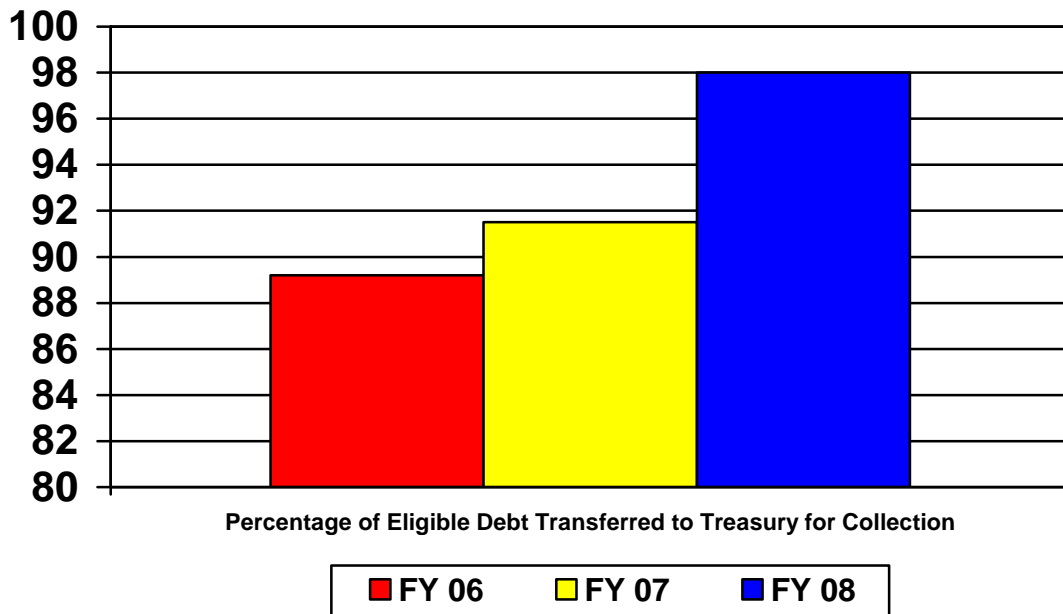
- Improved Collection of Application and Regulatory Fees – The Commission evaluated its fees collection program during the fiscal year. It reduced the number of fees lockboxes from 78 to 13 resulting in savings of approximately \$390,000 a year; implemented new payment tools that improve customer service; and updated the FCC’s filing guides, forms, and rules for making fee payments to the FCC.
- Initiated Comprehensive Review of Regulatory Fee Structure – In August of 2008, the Commission adopted a *Further Notice of Proposed Rulemaking* that asks how to more fairly distribute regulatory fees among communications industry segments and examines methods to more closely align the regulatory fee regime under Section 9 of the Communications Act of 1934 (as amended) with the Commission’s costs. Section 9 requires that the Commission periodically adjust the method it uses for collecting regulatory fees. Given the significant changes in the industry since the agency last reviewed its regulatory fee structure a decade ago, the Commission initiated this comprehensive review to update its regulatory fee structure so that it more accurately reflects the costs incurred by the Commission in carrying out its statutory responsibilities.
- Small Business Contracting Performance – The Commission exceeded the government-wide statutorily set small business contract goals in three out of five categories for FY 2008. Overall the Commission issued 42% of its contract dollars that were eligible for small contract awards to small businesses. This exceeds the government-wide goal of 23% by over 21%. Furthermore, the Commission exceeded the government-wide goals for awarding contracts to Woman-owned Small Businesses and Service Disabled Veteran-Owned Small Businesses.
- Cost Savings on IT Infrastructure Support – The Office of Managing Director undertook a review and analysis of several contracts providing aspects of IT infrastructure support. By issuing a competitive solicitation for a comprehensive contract to provide all aspects of support, the Commission gained greater efficiencies and cost savings. The new contract went into effect on August 31, 2008, resulting in the elimination of ten contractor positions and a \$2 million savings in annual operating costs.
- FCC Core Financial System – The Commission selected a vendor to supply the new core financial system and provide integration services. This contract award is important because the Commission is currently relying on a financial management system that is becoming obsolete and will not be supported by its vendor in the long term.
- Performance Assessment Rating Tool (PART) Evaluation – The FCC and the Office of Management and Budget conducted a PART evaluation of the Commission’s overall regulatory program. The program received an “adequate” rating, with the evaluation noting that “the FCC has taken recent steps to improve its financial management controls and address audit findings”, and that the Commission “measures its performance in many areas by examining market trends.”
- Information Security – The FCC issued a directive setting forth policies, procedures and responsibilities relating to the FCC Information Security Program. The objective of this program is to ensure that there are adequate levels of protection for all FCC information systems, the FCC Network, applications and databases, and information created, stored, or processed within those

systems. The directive addresses day-to-day security safeguards, business continuity, and system accessibility and authentication.

- Human Capital Accountability and Performance Measurement – The Commission implemented its first Human Capital Accountability and Performance Measurement System. This was completed prior to the Office of Personnel Management mandatory deadline. The broad reaching document establishes an accountability plan for the overall assessment of human resource management within the FCC.
- Leadership Succession Planning – The agency issued its first ever Succession Plan outlining leadership strategy and direction for the Commission. This document evaluates the existing leadership, potential attrition and the areas of highest need where the Commission will focus its resources.
- Building the Employee Knowledge Base
  - The Commission provided 8,370 instances of staff training in FY 2008, an increase of 2.2% over the previous fiscal year. 87% of the courses were technical or business skills training, compared to 83% of courses last year.
  - The Commission provided online training for all staff and contractor personnel concerning their responsibilities for protecting personally identifiable information as mandated by the Privacy Act. All eligible staff and contractors completed the training, and are in the process of taking online refresher training (to be completed in 2009). This will provide greater assurance that appropriate privacy protection procedures are used by all employees.
- Increased Recognition and Incentives for Superior Performance - Recognizing the need to reward superior employee achievement and provide incentives for future performance, the Commission increased its employee performance awards allocation by 11% in FY 2008 compared with the previous fiscal year.
- Improved Management of Commission Assets - The Commission continued implementation of new asset management procedures that vastly improved inventory and control of assets assigned to employees, particularly portable IT and telecommunication devices that are easily lost or stolen. This year's physical asset inventory located 97% of all headquarters assets. Field office personnel performed a similar physical inventory with 99.8% of all assets located.
- Gave Employees the Tools they Needed to be Innovative and Accountable – The Commission improved its automated tools that employees need to effectively do their jobs:
  - Initiated and completed the first phase of the FCC Consolidated Licensing System project which will provide common license application and processing functionalities across all radio services.
  - Increased support and provided service for call center expansion in support of the Digital Television transition.
  - Significantly revised and updated the FCC's IT Strategic Plan.
  - Created an IT Tactical plan to prioritize, track and monitor progress on all FCC IT initiatives, from maintenance through new systems development and hardware deployment.
  - Improved the FCC's information technology infrastructure including improved e-mail capability, consistent data management standards, improved enterprise search capability, and enhanced data encryption and protection processes.

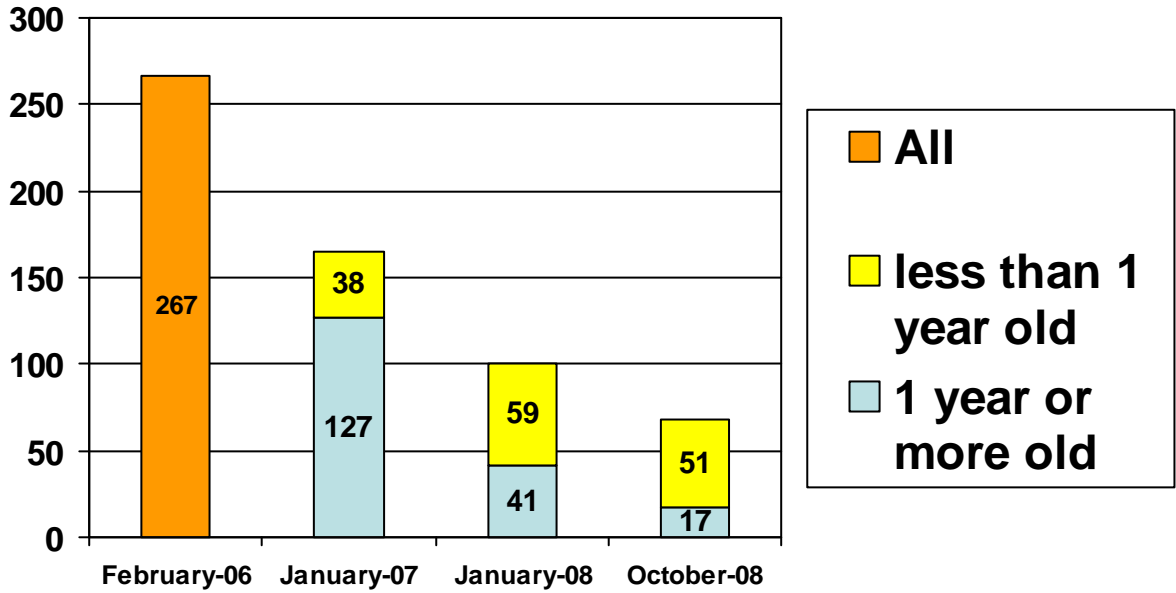
- Transferred 98% of Eligible Debt to Treasury: The Commission transferred 98% of the eligible, delinquent debts owed to it to the Treasury Department’s debt collection service. The Treasury uses offset programs and other collections activities not available to most agencies to ensure debts are paid. The chart below shows that the percentage of eligible debt transferred by the FCC has risen steadily since FY 2006.

**FCC Achieves 98% Mark for Seeking Repayment of Debts**



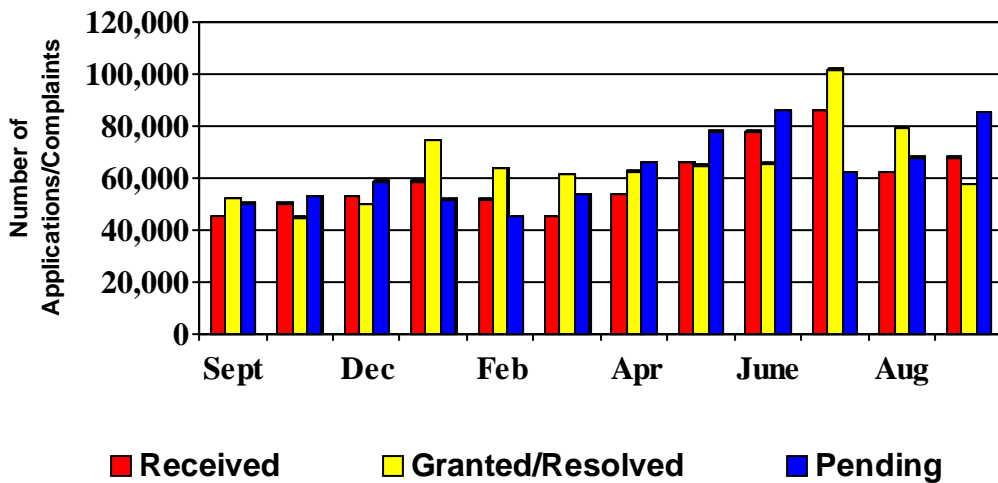
- Continued to Close Outstanding Audit Findings: The chart below shows that the Commission’s Office of Managing Director (OMD) reduced its total number of outstanding audit findings by 38 percent from February 2006 to January 2007, by 39 percent from January 2007 to January 2008, and by 32 percent from January 2008 to October 2008. Overall, OMD has reduced its outstanding audit findings by over 77 percent in the past 2½ years and closed over 250 audit findings. The chart shows that new audit findings are added each year as a result of audits conducted by the Inspector General such as the financial statement audit, the FISMA audit, and other management audits of internal controls at the Commission. However, the number of outstanding audit findings that are over one year old continues to dwindle with OMD reducing that figure by over 86 percent from January 2007 to October 2008. The Commission as a whole closed a total of 107 recommendations during FY 2008, and closed more than 440 recommendations in the last three fiscal years.

## Open OMD Audit Recommendations February 2006 through October 2008



- Efficiency in Processing License Applications and Consumer Complaints – The Commission received and processed more than ¾ of a million applications and complaints during FY 2008. The chart below displays monthly processing results.

## Applications and Complaints Processing FY 2008

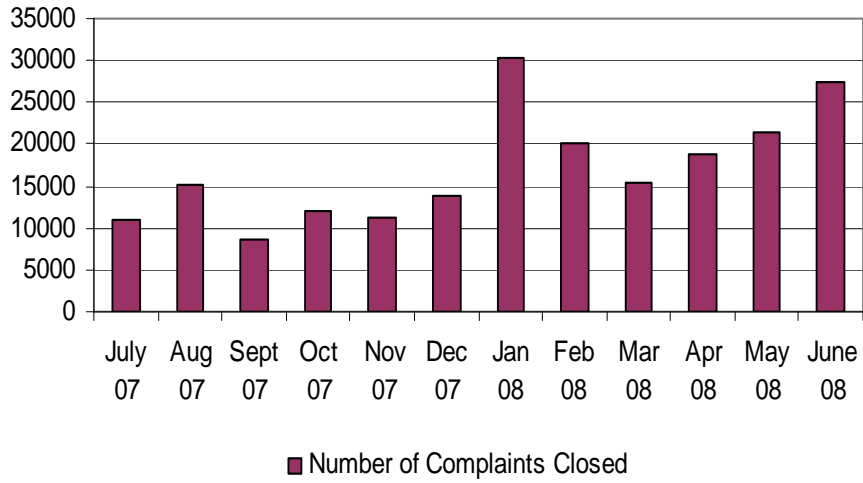


### *Ensure effective communications:*

- Digital Television (DTV) Transition Support
  - Printed more than eight million pages of documents to provide program outreach on the DTV Transition. Provided all contractual support required for the outreach and coordination of activities associated with the transition to DTV, including the pilot program in Wilmington, N.C.
  - Hits on the Commission's national DTV Web site, ([www.dtv.gov](http://www.dtv.gov)), have grown from an average of 300,000 per month a year ago to over 6 million per month. The webpage was redesigned for increased legibility, ease of use, and consistency in DTV messaging. The website is available in both English and Spanish.
  - The Commission launched a dedicated mailbox ([DTVinfo@fcc.gov](mailto:DTVinfo@fcc.gov)) last year for DTV related concerns and inquiries. On average the mailbox receives 50 – 100 inquiries per day. We strive to respond on the day the inquiry is received.
  - The basic DTV one page information sheet has been translated into 19 languages: Amharic, Arabic, Cambodian, Chinese, French, Haitian Creole, Hmong, Japanese, Korean, Kurdish, Laotian, Navajo, Portuguese, Russian, Somali, Spanish, Tagalog, Vietnamese, and Yupik. In addition, all FCC consumer publications, including all DTV documents found at [www.dtv.gov](http://www.dtv.gov), are available upon request in accessible formats such as electronic text, Braille, audio and large print.
  - The Commission released a number of new consumer friendly DTV publications. The publications are routinely updated to reflect new messaging and consumer consumers. Below is a list of new DTV publications released in FY 2008:
    - Antennas and Digital Television
    - A Simple Guide to the Digital Television Transition
    - Closed Captioning & Digital to Analog Converter Boxes
    - DTV Transition and Over-the-Air Viewers Along U.S. Borders
    - DTV Transition and LPTV/Class A/Translator Stations
    - DTV Transition Does Not Require Cable Systems to Switch to Digital
    - FCC and EPA Joint Fact Sheet on DTV and Recycling
    - What is the DTV Transition (available in English and 18 other languages)
    - Setting Up Your Converter Box With a VCR
    - Setting Up Your Digital-to-Analog Converter Box (Basic)
    - Setting Up Your Digital-to-Analog Converter Box (Basic with twin-lead antenna wire)
    - Setting Up Your Digital-to-Analog Converter Box (for Viewing Analog and Digital Broadcasts)
    - Satellite TV (DBS) Subscribers and the DTV Transition
    - Video Description and the Digital Transition
- FCC Consumer Complaint Processing - The FCC deployed the initial phases of a unified Consumer Complaint Management System (CCMS). Prior to this, multiple databases were used to manage the processing of complaints, relying on input from different forms including a general text area for consumer input of complaint details. Unfortunately, the general text area did not provide guidance regarding which details of the complaint were most important in pursuing possible enforcement action. In contrast, CCMS' forms are more user-friendly. The on-line forms prompt information from the consumer about the complaint, facilitating more efficient analysis and evaluation of potential violations. When completed, CCMS will provide an end-to-end, FCC-wide solution designed to accommodate and manage various complaint types. As a result of these efforts, in the first six months of 2008 the number of consumer

complaints processed by the FCC increased more than 85% versus the previous six month period as shown in the chart below:

### FCC Consumer Complaint Processing

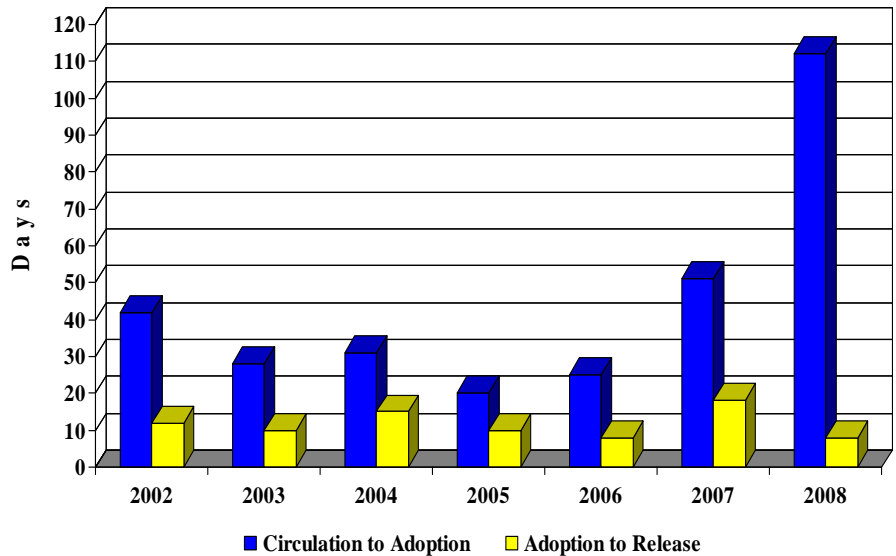


**FY 2008 PERFORMANCE INDICATORS**

**Reduce the average time required to complete rulemakings**

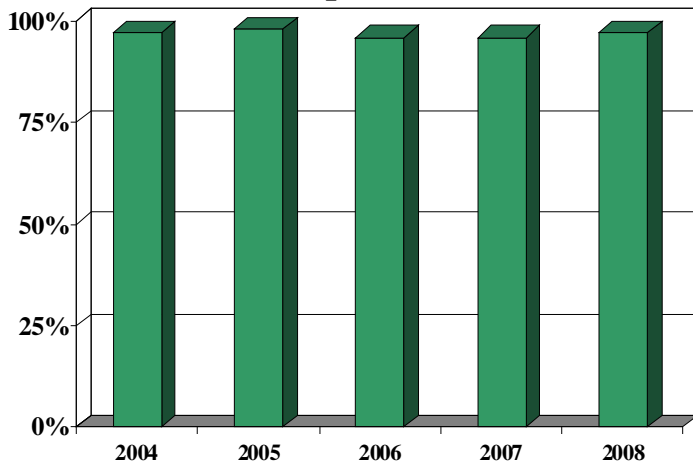
The FCC completed 33% more rulemaking items in FY 2008 compared to the previous year (271, up from 204) and more than 2½ times the number of rulemaking items (105) adopted in FY 2006. This significant increase in the quantity of items caused the average time from circulation to adoption to increase by 120% (from 51 to 112 days). However, the average time from adoption to release of an item decreased by 56% (from 18 to 8 days) between FY 2007 and FY 2008.

**AVERAGE TIME TO COMPLETE RULEMAKINGS**



**Increase efficiency in the processing of workload**

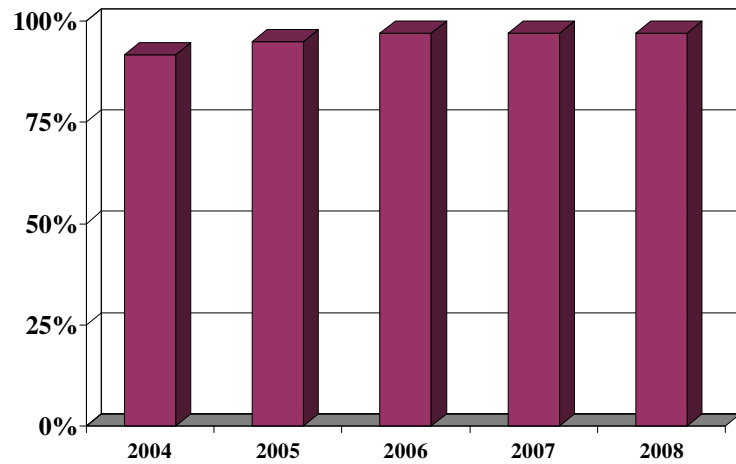
**Actions Disposed of Within Speed of Disposal Goal**



In FY 2008, 97% of the agency’s actions were disposed within the processing goals. Performance over the last five years exceeded the agency’s speed of disposal goal of 95%.

In FY 2008 the Commission received 97% of applications and notifications via electronic filing. Since FY 2004, the Commission has exceeded its 90% goal for electronic filing.

### Actions Filed Electronically





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# 3. Financial Statements and Auditor's Reports

## Message from the Chief Financial Officer

I am pleased to present the Commission's financial statements for fiscal year (FY) 2008 and to report that the Commission's auditors issued an unqualified opinion on each of the Commission's financial statements for FY 2008. Furthermore, I am proud to say that this is the third straight fiscal year the Commission has received an unqualified opinion. Three straight years of unqualified opinions is the longest consecutive period of "clean" audit opinions that the Commission has received in the ten years that its financial statements have been audited, dating back to fiscal year 1999. The Commission is proud of the work of its staff over the past three fiscal years to obtain and maintain an unqualified opinion.

Throughout FY 2008, the Commission worked diligently on closing audit findings from previous audits. The Commission as a whole closed 107 audit findings during FY 2008, and has closed more than 440 audit findings in the last three fiscal years. As a part of this effort, the Commission made progress on resolving matters raised by its auditors in their FY 2007 audit report. The Commission closed findings relating to the financial management of its reporting components. The Commission also tightened up its controls in the area of information security by closing findings related to its interconnections with its business partners and improving policies and procedures where necessary. The Commission also made progress in the area of compliance with the Debt Collection Improvement Act by transferring on time more than 98% of its eligible debt to the Department of the Treasury for collection. Furthermore, the Commission made progress in resolving its findings related to its financial management systems by moving forward with the acquisition of a new core financial system and planning reviews of its current feeder systems as required by OMB Circular A-127.

Despite these successes, work remains here at the Commission. The fiscal year 2008 audit report points out one material weakness and three significant deficiencies related to internal controls and notes two instances of non-compliance that still need to be resolved. The primary areas of concern relate to financial reporting, the modernization of both the Commission's and its reporting components' financial management systems, information technology control weaknesses, and instances of non-compliance with the Debt Collection Improvement Act.

First, I would like to address the material weakness. For the first time since 2005, the independent auditor identified a material weakness in the Commission's internal controls over its finance and accounting operations. Specifically, the independent auditor concluded that the Universal Service Administrative Company (USAC), which administers the \$7.8 billion Universal Service Fund (USF) under Commission oversight, misinterpreted the Commission's instructions and failed to properly implement a change to an accepted accounting method. The independent auditor notes that USAC's internal control breakdown was isolated to only one of the Commission's five financial statements, the Statement of Budgetary Resources (SBR). The Commission and USAC have already started implementing appropriate corrective action to ensure this or similar breakdowns do not occur in the future.

The independent auditor's conclusion underscores the need for strong Commission oversight of USAC. During FY 2008, the Commission revised and strengthened the existing Memorandum of Understanding (MOU) with USAC, required USAC to implement a performance-based executive compensation program, and directed USAC to take strong measures to prevent and deter potential improper payments. Still, USAC's failure to properly implement the Commission's instructions concerning its budgetary accounting procedures highlights the importance of the Commission taking an active role to ensure

USAC administers the USF in an efficient, effective manner. During FY 2009, we plan to continue our record of strong oversight of USAC and the USF.

Finally, one of the Commission's greatest challenges to resolving the auditor's findings and improving the performance of its financial reporting is to implement a new core financial management system. The Commission is currently relying on a core financial management system that will soon be obsolete and will not be 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 and to establish a legacy of effectiveness. 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 as it moves to the new core financial system. At this time, the Commission plans to complete the deployment of the new financial system by October 1, 2010. At the same time, the Commission is closely monitoring the progress of its reporting components' efforts to modernize their financial systems.

I look forward to fiscal year 2009 and making every effort to continue to strengthen the Commission's internal control environment and improve the effectiveness of the Commission's financial operations.

A handwritten signature in black ink, appearing to read "Mark Stephens". The signature is fluid and cursive, with the first name "Mark" and last name "Stephens" clearly distinguishable.

Mark Stephens  
Chief Financial Officer  
November 17, 2008

## PRINCIPAL STATEMENTS

### FEDERAL COMMUNICATIONS COMMISSION CONSOLIDATED BALANCE SHEET

As of September 30, 2008 and 2007  
(Dollars in thousands)

	FY 2008	FY 2007
<b>ASSETS</b> (Note 2)		
<b>Intragovernmental</b>		
Fund balance with Treasury (Note 3)	\$ 444,293	\$ 459,523
Investments (Note 5)	5,721,609	5,012,017
Accounts receivable (Note 6)	2,731	4,711
Other (Note 8)	17,177,707	-
<b>Total intragovernmental</b>	<u>23,346,340</u>	<u>5,476,251</u>
Cash and other monetary assets (Note 4)	51,942	100,200
Accounts receivable, net (Note 6)	891,106	750,762
Loans receivable, net (Note 7)	187,340	216,845
General property, plant, and equipment, net	36,082	31,619
Other	15,031	8,674
<b>Total assets</b>	<u>\$ 24,527,841</u>	<u>\$ 6,584,351</u>
<b>LIABILITIES</b> (Note 9)		
<b>Intragovernmental</b>		
Debt (Note 10)	\$ 112,711	\$ 105,914
Other (Note 11)		
Custodial	193,854	256,223
Other	2,346	1,840
Total other	<u>196,200</u>	<u>258,063</u>
<b>Total intragovernmental</b>	308,911	363,977
Accounts payable	79,569	94,505
Other (Note 11)		
Deferred revenue (Note 8)	17,302,548	91,619
Prepaid contributions	73,179	45,417
Accrued liabilities for Universal Service	521,319	481,603
Other	46,471	43,327
Total other	<u>17,943,517</u>	<u>661,966</u>
<b>Total liabilities</b>	<u>\$ 18,331,997</u>	<u>\$ 1,120,448</u>
Commitments and Contingencies (Note 13)		
<b>NET POSITION</b>		
Unexpended appropriations - other funds	\$ 11,273	\$ 17,544
Cumulative results of operations - earmarked funds (Note 19)	5,927,074	5,193,576
Cumulative results of operations - other funds	<u>257,497</u>	<u>252,783</u>
<b>Total net position</b>	<u>\$ 6,195,844</u>	<u>\$ 5,463,903</u>
<b>Total liabilities and net position</b>	<u>\$ 24,527,841</u>	<u>\$ 6,584,351</u>

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION  
CONSOLIDATED STATEMENT OF NET COST**

For the Years Ended September 30, 2008 and 2007

(Dollars in thousands)

	FY 2008	FY 2007
<b>Program costs:</b>		
<b>Broadband:</b>		
Gross costs (Note 14)	\$ 21,787	\$ 22,142
Less: earned revenue (Note 14)	(25,109)	(23,989)
Net program costs	<u>(3,322)</u>	<u>(1,847)</u>
<b>Competition:</b>		
Gross costs (Note 14)	7,918,069	7,597,748
Less: earned revenue (Note 14)	(119,669)	(113,911)
Net program costs	<u>7,798,400</u>	<u>7,483,837</u>
<b>Spectrum:</b>		
Gross costs (Note 14)	198,845	28,179
Less: earned revenue (Note 14)	(154,572)	(167,793)
Net program costs	<u>44,273</u>	<u>(139,614)</u>
<b>Media:</b>		
Gross costs (Note 14)	53,368	37,805
Less: earned revenue (Note 14)	(59,717)	(39,805)
Net program costs	<u>(6,349)</u>	<u>(2,000)</u>
<b>Public Safety and Homeland Security:</b>		
Gross costs (Note 14)	32,985	33,664
Less: earned revenue (Note 14)	(37,104)	(34,446)
Net program costs	<u>(4,119)</u>	<u>(782)</u>
<b>Modernize the FCC:</b>		
Gross costs (Note 14)	50,784	50,441
Less: earned revenue (Note 14)	(55,920)	(50,939)
Net program costs	<u>(5,136)</u>	<u>(498)</u>
<b>Total Net Program Costs</b>	7,823,747	7,339,096
<b>Cost not assigned to programs:</b>		
Telecommunications Development Fund	8,960	11,836
Other expenses	(1,311)	(1,386)
<b>Less: earned revenues not attributed to programs:</b>		
Telecommunications Development Fund	<u>(8,960)</u>	<u>(11,836)</u>
<b>Net cost of operations</b>	<u>\$ 7,822,436</u>	<u>\$ 7,337,710</u>

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, 2008 and 2007

(Dollars in thousands)

	FY 2008			FY 2007		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
<b>Cumulative Results of Operations:</b>						
Beginning Balances	\$ 5,193,576	\$ 252,783	\$ 5,446,359	\$ 5,112,001	\$ 81,877	\$ 5,193,878
<b>Budgetary Financing Sources:</b>						
Other adjustments (rescissions, etc.)	-	(2,781)	(2,781)	-	(1,619)	(1,619)
Appropriations used	-	7,495	7,495	-	32,518	32,518
Non-exchange revenue	8,566,063	-	8,566,063	7,570,445	-	7,570,445
Transfers in/ out without reimbursement	(21,480)	21,480	-	-	-	-
<b>Other Financing Sources (Non Exchange):</b>						
Transfers in/ out without reimbursement	-	(22,115)	(22,115)	-	(25,163)	(25,163)
Imputed financing	-	13,568	13,568	-	14,585	14,585
Other	-	(1,582)	(1,582)	-	(575)	(575)
Total Financing Sources	8,544,583	16,065	8,560,648	7,570,445	19,746	7,590,191
Net Cost of Operations	7,811,085	11,351	7,822,436	7,488,870	(151,160)	7,337,710
Net Change	733,498	4,714	738,212	81,575	170,906	252,481
<b>Cumulative Results of Operations</b>	<b>5,927,074</b>	<b>257,497</b>	<b>6,184,571</b>	<b>5,193,576</b>	<b>252,783</b>	<b>5,446,359</b>
<b>Unexpended Appropriations:</b>						
Beginning Balances	-	17,544	17,544	-	17,843	17,843
<b>Budgetary Financing Sources:</b>						
Appropriations received	-	1,000	1,000	-	32,219	32,219
Other adjustments	-	224	224	-	-	-
Appropriations used	-	(7,495)	(7,495)	-	(32,518)	(32,518)
Total Budgetary Financing Sources	-	(6,271)	(6,271)	-	(299)	(299)
<b>Total Unexpended Appropriations</b>	<b>-</b>	<b>11,273</b>	<b>11,273</b>	<b>-</b>	<b>17,544</b>	<b>17,544</b>
<b>Net Position</b>	<b>\$ 5,927,074</b>	<b>\$ 268,770</b>	<b>\$ 6,195,844</b>	<b>\$ 5,193,576</b>	<b>\$ 270,327</b>	<b>\$ 5,463,903</b>

The accompanying notes are an integral part of these statements.

# FEDERAL COMMUNICATIONS COMMISSION COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2008 and 2007

(Dollars in thousands)

	FY 2008		FY 2007	
	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct
<b>Budgetary Resources:</b>				
Unobligated balance, brought forward, October 1:	\$ 1,702,164	\$ 45,527	\$ 1,981,011	\$ 284,141
Recoveries of prior year unpaid obligations (Note 22)	1,036,931	-	1,405,407	-
Budget authority:				
Appropriations received	8,598,479	-	7,793,793	-
Borrowing authority (Note 16)	-	6,797	-	3,274
Spending authority from offsetting collections				
Earned:				
Collected	411,862	15,258	383,376	137,328
Change in receivables from Federal sources	7	-	(37)	-
Previously unavailable	31,702	-	25,300	-
Budget authority subtotal	<u>9,042,050</u>	<u>22,055</u>	<u>8,202,432</u>	<u>140,602</u>
Temporarily not available pursuant to Public Law	(54,130)	-	(31,702)	-
Permanently not available	(4,139)	-	(1,813)	(346,356)
Total budgetary resources	<u>\$ 11,722,876</u>	<u>\$ 67,582</u>	<u>\$ 11,555,335</u>	<u>\$ 78,387</u>
<b>Status of Budgetary Resources:</b>				
Obligations incurred: (Note 15)				
Direct	\$ 9,438,478	\$ 13,678	\$ 9,851,168	\$ 32,860
Reimbursable	2,361	-	2,003	-
Subtotal	<u>9,440,839</u>	<u>13,678</u>	<u>9,853,171</u>	<u>32,860</u>
Unobligated balance - available:				
Apportioned	113,905	-	126,021	343
Exempt from apportionment	2,061,178	-	1,564,395	-
Unobligated balance not available	<u>106,954</u>	<u>53,904</u>	<u>11,748</u>	<u>45,184</u>
Total status of budgetary resources	<u>\$ 11,722,876</u>	<u>\$ 67,582</u>	<u>\$ 11,555,335</u>	<u>\$ 78,387</u>
<b>Change in Obligated Balance:</b>				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	\$ 3,464,773	\$ -	\$ 2,898,642	\$ -
Uncollected customer payments from Federal sources, brought forward, October 1	(9)	-	(46)	-
Total unpaid obligated balance, brought forward, net	<u>3,464,764</u>	<u>-</u>	<u>2,898,596</u>	<u>-</u>
Obligations incurred net (+/-)	9,440,839	13,678	9,853,171	32,860
Gross outlays	(8,279,906)	(13,678)	(7,881,633)	(32,860)
Recoveries of prior year unpaid obligations, actual	(1,036,931)	-	(1,405,407)	-
Change in uncollected customer payments from Federal sources	(7)	-	37	-
Total, unpaid obligated balance, net, end of period	<u>3,588,759</u>	<u>-</u>	<u>3,464,764</u>	<u>-</u>
Obligated balance, net, end of period				
Unpaid obligations	3,588,774	-	3,464,773	-
Uncollected customer payments from Federal sources	(15)	-	(9)	-
Total, unpaid obligated balance, net, end of period	<u>3,588,759</u>	<u>-</u>	<u>3,464,764</u>	<u>-</u>
<b>Net Outlays</b>				
Net Outlays:				
Gross outlays	\$ 8,279,906	\$ 13,678	\$ 7,881,633	\$ 32,860
Offsetting collections	(411,862)	(15,258)	(383,376)	(137,328)
Distributed offsetting receipts	(216,686)	-	(275,777)	-
Net outlays	<u>\$ 7,651,358</u>	<u>\$ (1,580)</u>	<u>\$ 7,222,480</u>	<u>\$ (104,468)</u>

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION**  
**CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY**

For the Years Ended September 30, 2008 and 2007

(Dollars in thousands)

	FY 2008	FY 2007
<b>Revenue Activity:</b>		
Sources of Cash Collections:		
Spectrum Auctions	\$ 1,793,794	\$ 13,912,025
Fines and Penalties	35,172	54,122
Credit Reform	13,678	32,860
TDA Interest	8,960	11,836
Total Cash Collections	<u>1,851,604</u>	<u>14,010,843</u>
Accrual Adjustments		
Spectrum Auctions	(444)	(7,363)
Fines and Penalties	8,515	(15,776)
Total Accrual Adjustments	<u>8,071</u>	<u>(23,139)</u>
Total Custodial Revenue	1,859,675	13,987,704
<b>Disposition of Collections:</b>		
Transferred to Others:		
Recipient A: U.S. Treasury	(49,010)	(6,936,797)
Recipient B: Spectrum Relocation Fund	(92)	(6,849,884)
Recipient C: National Telecommunications & Information Admin.	(1,778,983)	-
(Increase)/Decrease in Amounts Yet to be Transferred	62,369	(104,187)
Retained by the Reporting Entity	<u>(93,959)</u>	<u>(96,836)</u>
<b>Net Custodial Activity</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these statements.



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## **NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**  
(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. Federal generally accepted accounting principles (GAAP) and the form and content for 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 USAC, NECA, and Welch, 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 thousand or more and all internally developed software with a development cost of \$50 thousand 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 thousand but collectively worth more than \$250 thousand, 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 represents the balance of transfers less expenses made by the USF to the Universal Service Administration Company (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 re-estimates 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.

### **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 \$312,000 for FY 2008 and \$290,295 for FY 2007 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 by the market place at the time of auction. The Commission recognized custodial revenue of \$1,793,350 in FY 2008 and \$13,904,662 in FY 2007.

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 2008 and FY 2007.

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 \$22,175 in FY 2008 and \$22,535 in FY 2007.

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 \$2,052 in FY 2008 and \$1,686 in FY 2007.

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 2008 is \$313,000 with regulatory fee collections of \$312,000 resulting in a net appropriation of \$1,000. The annual appropriation for FY 2007 was \$291,282 with regulatory fee collections of \$290,295 resulting in a net appropriation of \$987. 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 no appropriations in FY 2008 and \$31,232 in FY 2007 for these purposes. These appropriations are available until used.

USF (Nonexchange) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service. These contributions represent appropriated, dedicated and earmarked receipts and are accounted for as a budgetary financing source. Contributions and related interest totaled \$8,566,063 in FY 2008 and \$7,570,445 in FY 2007.

#### Allocation of Exchange Revenues

The FCC 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 there is no relationship between the cost of the spectrum and the revenue it generates.

### **Reclassifications**

#### Statement of Budgetary Resources

Congress provided an exemption to the USF (excluding TRS) from the Anti-Deficiency Act in both FY 2008 and FY 2007. In FY 2008 OMB provided new guidance to the Commission indicating that USF unobligated balances should be reflected as exempt from apportionment, because of the ADA exemption. For comparative purposes, the Commission has reclassified the FY 2007 USF unobligated balances from the unobligated balances not available line to the exempt from apportionment line.

**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 Universal Service Administrative Company (USAC), which is both the administrator and B&C agent for the four USF support mechanisms, the National Exchange Carrier Association (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 FY 2008 and FY 2007 are listed below:

	USF	TRS	NANP	Total
FY 2008:				
Administrative Fees	\$ 156,120	\$ 1,097	\$ 3,875	\$ 161,092
Due To	-	93	265	358
Due From	15,031	-	-	15,031
Total	<u>\$ 171,151</u>	<u>\$ 1,190</u>	<u>\$ 4,140</u>	<u>\$ 176,481</u>
FY 2007:				
Administrative Fees	\$ 77,778	\$ 1,046	\$ 5,140	\$ 83,964
Due To	-	69	720	789
Due From	8,674	-	-	8,674
Total	<u>\$ 86,452</u>	<u>\$ 1,115</u>	<u>\$ 5,860</u>	<u>\$ 93,427</u>

**Net Position**

Net Position is the residual difference between assets and liabilities and comprises 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 result of the Commission's operations since inception.



**Note 2 - Non-entity Assets**

The following summarizes Non-entity Assets as of September 30, 2008 and 2007:

	<u>FY 2008</u>	<u>FY 2007</u>
Intragovernmental:		
Fund Balance with Treasury (FBWT)	\$ 212,116	\$ 268,434
Accounts Receivable, Net	2,716	4,703
Other (Note 8)	<u>17,177,707</u>	<u>-</u>
Total Intragovernmental	17,392,539	273,137
Cash and Other Monetary Assets	1	-
Accounts Receivable, Net	<u>30,259</u>	<u>16,593</u>
Total Non-entity Assets	17,422,799	289,730
Total Entity Assets	<u>7,105,042</u>	<u>6,294,621</u>
Total Assets	<u>\$ 24,527,841</u>	<u>\$ 6,584,351</u>

Non-entity Fund Balance with Treasury primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for \$208,390 in FY 2008 and \$267,178 in FY 2007. 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, 2008 and 2007:

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	<u>\$ 178,273</u>	<u>\$ 53,904</u>	<u>\$ 212,116</u>	<u>\$ 444,293</u>

FY 2007

	Appropriated Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	\$ 27,051	\$ 45,527	\$ -	\$ 72,578
Unavailable	36,768	-	-	36,768
Obligated Balance not yet Disbursed	81,743	-	-	81,743
Non-Budgetary FBWT	-	-	268,434	268,434
Total	<u>\$ 145,562</u>	<u>\$ 45,527</u>	<u>\$ 268,434</u>	<u>\$ 459,523</u>

**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, 2008 and 2007:

	<u>FY 2008</u>	<u>FY 2007</u>
Cash and Cash Equivalents	<u>\$ 51,942</u>	<u>\$ 100,200</u>

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 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.

In FY 2007 Cash and Other Monetary Assets included no deposits and related accrued interest being held for spectrum auctions, \$95,241 in USF contributions and related accrued interest being held for distribution, and \$4,959 in NANP deposits and related accrued interest.

## Note 5 - Investments

The following summarizes Investments as of September 30, 2008 and 2007:

	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosures
<u>FY 2008</u>						
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	<u>\$ 5,699,789</u>		<u>\$ 16,201</u>	<u>\$ 5,619</u>	<u>\$ 5,721,609</u>	<u>\$ 5,733,549</u>
<u>FY 2007</u>						
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	\$ 3,445,376	EI	\$ 28,263	\$ -	\$ 3,473,639	\$ 3,478,422
Treasury Notes	1,512,455	EI	3,034	22,889	1,538,378	1,517,768
Total	<u>\$ 4,957,831</u>		<u>\$ 31,297</u>	<u>\$ 22,889</u>	<u>\$ 5,012,017</u>	<u>\$ 4,996,190</u>

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.

The format for the Investments note has been updated to agree with the revised OMB Circular A-136. For comparability purposes, the FY 2007 format has been adjusted to agree with this update.

## Note 6 - Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2008 and 2007:

	<u>Intragovernmental</u>	<u>Public</u>	<u>Total</u>
<u>FY 2008</u>			
Gross Accounts Receivable	\$ 2,731	\$ 1,297,076	\$ 1,299,807
Allowance for Doubtful Accounts	( - )	( 405,970 )	( 405,970 )
Net Accounts Receivable	<u>\$ 2,731</u>	<u>\$ 891,106</u>	<u>\$ 893,837</u>
<u>FY 2007</u>			
Gross Accounts Receivable	\$ 4,711	\$ 1,533,201	\$ 1,537,912
Allowance for Doubtful Accounts	( - )	( 782,439 )	( 782,439 )
Net Accounts Receivable	<u>\$ 4,711</u>	<u>\$ 750,762</u>	<u>\$ 755,473</u>
Interest on Delinquent AR	\$ -	\$ 45,856	\$ 45,856

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

The Notice of Apparent Liabilities (NAL) receivables represent notifications of a forfeiture, subject to final determination. The NAL receivables are included under the Forfeitures category in the table below. While these receivables are included on the Treasury Report on Receivables at the request of Treasury, the ability to collect these receivables is not determined until a final judgment is issued. A 100% allowance is made for all NAL receivables. Similarly, the Commitment Adjustment (COMAD) 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 an 86% allowance in FY 2008 and a 90% allowance in FY 2007.

In FY 2008 the FCC completed the write-off process for two large Spectrum Auction receivables totaling \$386,810. These write-offs are responsible for the large decrease in the Spectrum Auction Accounts receivable and Allowance balances for uncollectibles between FY 2007 and FY 2008.

**Note 6 - Accounts Receivable, Net (continued)**

	FY 2008			FY 2007		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	\$ 1,043,273	\$ (198,862)	\$ 844,411	\$ 932,030	\$ (208,793)	\$ 723,237
COMAD	115,016	(98,914)	16,102	110,981	(99,883)	11,098
Regulatory Fees	29,498	(15,684)	13,814	24,737	(16,958)	7,779
Spectrum Auction	26,089	(23,596)	2,493	415,147	(412,211)	2,936
Forfeitures	72,410	(60,767)	11,643	39,804	(37,156)	2,648
Other	13,521	(8,147)	5,374	15,213	(7,438)	7,775
Total	<u>\$ 1,299,807</u>	<u>\$ (405,970)</u>	<u>\$ 893,837</u>	<u>\$ 1,537,912</u>	<u>\$ (782,439)</u>	<u>\$ 755,473</u>

**Note 7 – Loans Receivable, Net**

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

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

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

As required under the FCRA of 1990, as amended, the Commission coordinates with the OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and reestimates. The most recent subsidy reestimate was completed in September 2008 for actual performance data through August 31, 2008. The reestimate resulted in a net upward adjustment, including interest on the reestimate, of \$27,627 reported in the FY 2008 financial statements.

**Note 7 – Loans Receivable, Net (continued)**

**Direct Loans**

<u>Loan Program</u>	<u>Loans Receivable, Gross</u>	<u>Interest Receivable</u>	<u>Other Receivables</u>	<u>Allowance for Subsidy Cost (Present Value)</u>	<u>Value of Assets Related to Direct Loans</u>
Spectrum Auctions:					
FY 2008 Bal.	\$ 210,275	\$ 16,511	\$ 1,480	\$ (40,926)	\$ 187,340
FY 2007 Bal.	\$ 377,368	\$ 28,444	\$ 1,849	\$ (190,816)	\$ 216,845

Interest accrued on bankrupt and defaulted loans totaled \$16,511 in FY 2008 and \$28,444 in FY 2007.

**Total Amount of Direct Loans Disbursed**

No new loans were issued in FY 2008 and 2007.

**Subsidy Expense for Direct Loans by Program and Component**

Direct Loan Modifications and Reestimates:

<u>Loan Program</u>	<u>Modifications</u>	<u>Interest Rate Reestimates</u>	<u>Technical Reestimates</u>	<u>Total Reestimates</u>
Spectrum Auctions:				
FY 2008 (Net)	\$ -	\$ -	\$ 27,627	\$ 27,627
FY 2007 (Net)	\$ -	\$ -	\$ (29,099)	\$ (29,099)

**Schedule for Reconciling Subsidy Cost Allowance Balances**

Beginning Balance of the Subsidy Cost Allowance	<u>FY 2008</u>	<u>FY 2007</u>
	\$ 190,816	\$ 313,486
Adjustments:		
Recoveries	85	21,942
Loans written off	(193,048)	(15,663)
Subsidy allowance amortization	15,446	21,253
Other	-	(121,103)
Ending balance before reestimates	13,299	219,915
Subsidy reestimates:		
Technical/default reestimate	<u>27,627</u>	<u>(29,099)</u>
Ending balance of the subsidy cost allowance	<u>\$ 40,926</u>	<u>\$ 190,816</u>

**Note 7 – Loans Receivable, Net (continued)**

<b>Administrative Expense</b>	<u>FY 2008</u>	<u>FY 2007</u>
Spectrum Auctions	\$ <u>6,426</u>	\$ <u>6,622</u>

**Note 8 – Other Assets**

The FCC 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 FCC has retained a deferred revenue liability to the public for this amount in the event that any of these proceeds is required to be refunded. As an offset to the liability, the FCC has recognized an Intragovernmental Other Asset from the National Telecommunications and Information Administration (NTIA) who holds the related Fund Balance. The NTIA has recorded a corresponding Other Liability that will eliminate with the FCC Other Asset for Governmentwide Financial Reporting purposes.

**Note 9 - Liabilities Not Covered by Budgetary Resources**

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2008 and 2007:

	<u>FY 2008</u>	<u>FY 2007</u>
Intragovernmental:		
Other:		
FECA Liability	\$ 480	\$ 399
Other:		
Unfunded Leave	18,190	17,186
Accrued Liabilities for Universal Service	<u>521,319</u>	<u>481,603</u>
Total liabilities not covered by budgetary resources	539,989	499,188
Total liabilities covered by budgetary resources	<u>17,792,008</u>	<u>621,260</u>
Total Liabilities	<u>\$ 18,331,997</u>	<u>\$ 1,120,448</u>

**Note 10 - Debt**

	<u>FY 2007</u>		<u>FY 2007</u>		<u>FY 2008</u>
	<u>Beginning</u>	<u>Net</u>	<u>Ending</u>	<u>Net</u>	<u>Ending</u>
	<u>Balance</u>	<u>Borrowing</u>	<u>Balance</u>	<u>Borrowing</u>	<u>Balance</u>
Debt to the Treasury	\$ 448,997	\$ (343,083)	\$ 105,914	\$ 6,797	\$ 112,711

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, 2008 and 2007:

<u>FY 2008</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Custodial Liability	\$ -	\$ 193,854	\$ 193,854
Other	-	2,346	2,346
Total Intragovernmental	<u>\$ -</u>	<u>\$ 196,200</u>	<u>\$ 196,200</u>
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	<u>\$ 30,509</u>	<u>\$ 17,913,008</u>	<u>\$ 17,943,517</u>
<u>FY 2007</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Custodial Liability	\$ -	\$ 256,223	\$ 256,223
Other	-	1,840	1,840
Total Intragovernmental	<u>\$ -</u>	<u>\$ 258,063</u>	<u>\$ 258,063</u>
Deferred Revenue	\$ 20,282	\$ 71,337	\$ 91,619
Prepaid Contributions	-	45,417	45,417
Accrued Liabilities for Universal Service	-	481,603	481,603
Other	-	43,327	43,327
Total Other Public	<u>\$ 20,282</u>	<u>\$ 641,684</u>	<u>\$ 661,966</u>

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 and office equipment. The copier lease arrangements are renewable annually with five possible annual renewal periods. 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 2008 will be required for the next five years and has estimated space and copier 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:

<u>Fiscal Year</u>	<u>Building</u>	<u>Copier</u>	<u>Total</u>
2009	\$ 44,217	\$ 1,532	\$ 45,749
2010	45,102	1,532	46,634
2011	46,005	1,532	47,537
2012	47,054	1,532	48,586
2013	<u>48,129</u>	<u>1,532</u>	<u>49,661</u>
Total Future Lease Payment	<u>\$ 230,507</u>	<u>\$ 7,660</u>	<u>\$ 238,167</u>

### 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 program, which might result in future proceedings or actions. The complexity of these actions precludes management from estimating the total amount of recovery that may result from these actions.

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.

## 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 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

### Program Costs - FY 2007

Program	Intragovernmental	Public	Total
Broadband	\$ 6,266	\$ 15,876	\$ 22,142
Competition	29,182	7,568,566	7,597,748
Spectrum	63,377	(35,198)	28,179
Media	10,360	27,445	37,805
Public Safety and Homeland Security	9,639	24,025	33,664
Modernize the FCC	12,698	37,743	50,441
Total	\$ 131,522	\$ 7,638,457	\$ 7,769,979

### Program Earned Revenue - FY 2007

Program	Intragovernmental	Public	Total
Broadband	\$ -	\$ 23,989	\$ 23,989
Competition	-	113,911	113,911
Spectrum	25,796	141,997	167,793
Media	198	39,607	39,805
Public Safety and Homeland Security	1,161	33,285	34,446
Modernize the FCC	-	50,939	50,939
Total	\$ 27,155	\$ 403,728	\$ 430,883

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

The following summarizes Apportionment Categories of Obligations Incurred as of September 30, 2008 and 2007:

	FY 2008		FY 2007	
	<u>Budgetary</u>	<u>Non-Budgetary</u>	<u>Budgetary</u>	<u>Non-Budgetary</u>
Direct				
Category A	\$ 399,995	\$ -	\$ 377,668	\$ -
Category B	654,178	13,678	549,655	32,860
Exempt from Apportionment	<u>8,384,305</u>	<u>-</u>	<u>8,923,845</u>	<u>-</u>
Total Direct	<u>\$ 9,438,478</u>	<u>\$ 13,678</u>	<u>\$ 9,851,168</u>	<u>\$ 32,860</u>
Reimbursable				
Category A	\$ 2,361	\$ -	\$ 2,003	\$ -

**Category A** – Apportioned by Quarter

**Category B** – Apportioned by Purpose

**Note 16 - Terms of Borrowing Authority Used**

Maturity Dates :	<u>FY 2008</u>	<u>FY 2007</u>
September 30, 2007	\$ -	\$ 38
September 30, 2008	-	166
September 30, 2009	543	3,070
September 30, 2010	1	-
September 30, 2011	<u>6,253</u>	<u>-</u>
Total Borrowing Authority Used	<u>\$ 6,797</u>	<u>\$ 3,274</u>

In FY 2008 the FCC used borrowing authority of \$6,797 to cover interest expense. In FY 2007 the FCC used borrowing authority of \$2,628 to cover downward subsidy and \$646 to cover interest expense. The FCC 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 110-161, 121 Stat. 1844 (Dec. 26, 2007), offsetting collections received in excess of \$312,000 in FY 2008 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, 2007, are not available for obligation. All other no-year unobligated balances are available at the start of the next fiscal year, following apportionment by the OMB.

### **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 2007 and the amounts presented in the 2009 President's Budget. The FY 2010 *Budget of the United States Government* (President's Budget) with actual numbers for FY 2008 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, 2008 and 2007:

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Balance Sheet</b>		
<b>ASSETS</b>		
Investments	\$ 5,721,609	\$ 5,012,017
Cash and other monetary assets	46,864	95,241
Accounts receivable, net	862,058	735,032
General property, plant, and equipment, net	10,723	1,748
Other assets	15,031	8,674
Total assets	<u>\$ 6,656,285</u>	<u>\$ 5,852,712</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 77,125	\$ 91,512
Deferred revenue	57,622	40,652
Prepaid contributions	73,145	45,369
Accrued liabilities	521,319	481,603
Total liabilities	<u>\$ 729,211</u>	<u>\$ 659,136</u>
Cumulative results of operations	<u>\$ 5,927,074</u>	<u>\$ 5,193,576</u>
Total liabilities and net position	<u>\$ 6,656,285</u>	<u>\$ 5,852,712</u>
<b>Statement of Net Cost</b>		
Gross program costs	\$ 7,811,085	\$ 7,488,870
Less earned revenues	-	-
Net cost of operations	<u>\$ 7,811,085</u>	<u>\$ 7,488,870</u>
<b>Statement of Changes in Net Position</b>		
Net position beginning of period	\$ 5,193,576	\$ 5,112,001
Non-exchange revenue	8,566,063	7,570,445
Transfers in/out without reimbursement	(21,480)	-
Net cost of operations	<u>7,811,085</u>	<u>7,488,870</u>
Change in net position	733,498	81,575
Net position end of period	<u>\$ 5,927,074</u>	<u>\$ 5,193,576</u>

## Note 20 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled \$3,501,751 as of September 30, 2008 and \$3,359,478 as of September 30, 2007.

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

As of September 30, 2008 and 2007:

	FY 2008	FY 2007
Budgetary Resources Obligated		
Obligations incurred	\$ 9,454,517	\$ 9,886,031
Less: spending authority from offsetting collections and recoveries	1,464,056	1,926,074
Obligations net of offsetting collections and recoveries	<u>7,990,461</u>	<u>7,959,957</u>
Less: offsetting receipts	216,686	275,777
Net obligations	<u>7,773,775</u>	<u>7,684,180</u>
Other Resources	35,683	37,498
Change in Undelivered Orders	(142,273)	(551,417)
Resources that fund expenses recognized in prior periods	(32,947)	(41,241)
Budgetary offsetting collections and receipts that do not affect net cost of operations	196,091	360,339
Resources that finance the acquisition of assets	(18,373)	(10,837)
Other	(39,425)	(47,283)
Increase in annual leave liability	1,004	245
Upward/Downward reestimates of credit subsidy (+/-)	27,627	(150,202)
Increase in exchange revenue receivable from the public	435	10,517
Other (+/-)	15,230	37,953
Depreciation and amortization	13,911	16,985
Other (+/-)	<u>(8,302)</u>	<u>(9,027)</u>
Net Cost of Operations	<u>\$ 7,822,436</u>	<u>\$ 7,337,710</u>

## Note 22 – Change in Accounting Methods

Pursuant to new guidance obtained from OMB in FY 2008, expirations for obligations recorded for the commitment letters at the time of expiration are recorded as downward adjustments of prior year obligations. Subsequent invoices received beyond the invoice deadline and approved for payments are treated as a second accounting event and an upward adjustment to re-establish prior year obligations.

To ensure that sufficient resources are available to cover obligations, the FCC has incorporated an estimated amount for invoices that will be re-established after the deadline as part of the total obligated balance. The estimate is adjusted each quarter and changes in the estimate are recorded as an upward adjustment to prior year obligations in the same manner that invoices received after the deadline are recorded.

The impact of the finalized accounting practice on the FY 2007 SBR is presented for comparative purposes below:

	Reported	Comparative
Recoveries of prior year unpaid obligations	\$1,405,407	\$1,294,474
Obligations incurred: Direct	\$9,851,168	\$9,740,235

## REQUIRED SUPPLEMENTARY INFORMATION

### REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2008  
(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 FCC and the Universal Service Fund. Reflected in the chart below are the major accounts of the FCC that are aggregated and presented in the September 30, 2008 Combined Statement of Budgetary Resources.

<b>FY2008</b>	<b><u>S&amp;E</u></b>	<b><u>Credit</u></b>	<b><u>Auctions</u></b>	<b><u>USF</u></b>	<b><u>Total</u></b>
<b>Budgetary Resources:</b>					
Unobligated balances - brought forward, October 1	\$ 19,279	\$ 54,090	\$ 4,273	\$ 1,670,049	\$ 1,747,691
Recoveries of prior year unpaid obligations	6,221	7,922	2,625	1,020,163	1,036,931
Budget authority	359,570	22,056	85,000	8,597,479	9,064,105
Nonexpenditure transfers, net, anticipated and actual	21,480	-	-	(21,480)	-
Temporarily not available pursuant to Public Law	(54,130)	-	-	-	(54,130)
Permanently not available	(51)	-	(4,088)	-	(4,139)
Total budgetary resources	<u>\$ 352,369</u>	<u>\$ 84,068</u>	<u>\$ 87,810</u>	<u>\$ 11,266,211</u>	<u>\$ 11,790,458</u>
<b>Status of Budgetary Resources:</b>					
Obligations incurred	\$ 321,629	\$ 20,586	\$ 85,322	\$ 9,026,980	\$ 9,454,517
Unobligated balances - available	30,355	9,570	-	2,135,158	2,175,083
Unobligated balances - not available	385	53,912	2,488	104,073	160,858
Total, status of budgetary resources	<u>\$ 352,369</u>	<u>\$ 84,068</u>	<u>\$ 87,810</u>	<u>\$ 11,266,211</u>	<u>\$ 11,790,458</u>
<b>Change in Obligated Balance:</b>					
Total unpaid obligated balance, net brought Forward	\$ 43,312	\$ 9,606	\$ 28,827	\$ 3,383,019	\$ 3,464,764
Obligations incurred, net	321,629	20,586	85,322	9,026,980	9,454,517
Gross outlays	(306,107)	(20,116)	(84,946)	(7,882,415)	(8,293,584)
Recoveries of prior year unpaid obligations, actual	(6,221)	(7,922)	(2,625)	(1,020,163)	(1,036,931)
Change in uncollected customer payments from Federal sources	(7)	-	-	-	(7)
Total, Unpaid obligated balance, net, end of period	<u>\$ 52,606</u>	<u>\$ 2,154</u>	<u>\$ 26,578</u>	<u>\$ 3,507,421</u>	<u>\$ 3,588,759</u>
<b>Net Outlays</b>					
Gross outlays	\$ 306,107	\$ 20,116	\$ 84,946	\$ 7,882,415	\$ 8,293,584
Offsetting collections	(326,862)	(15,258)	(85,000)	-	(427,120)
Distributed offsetting receipts	(23,888)	-	-	(192,798)	(216,686)
Net outlays	<u>\$ (44,643)</u>	<u>\$ 4,858</u>	<u>\$ (54)</u>	<u>\$ 7,689,617</u>	<u>\$ 7,649,778</u>



## INDEPENDENT AUDITOR'S REPORT

Managing Director of the Federal Communications Commission  
Chief Financial Officer of the Federal Communications Commission

In our audit of the Federal Communications Commission (FCC) for fiscal year (FY) 2008, we found:

- The FCC financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- One material weakness in internal control and three significant deficiencies; and
- Two instances of noncompliance with laws and regulations.

The following sections discuss in more detail: (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A) and other supplementary information, (3) our audit objectives, scope and methodology, and (4) agency comments and evaluation.

### OPINION ON FINANCIAL STATEMENTS

The accompanying financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, FCC's assets, liabilities, and net position as of September 30, 2008 and 2007; and net costs; changes in net position; budgetary resources; and custodial activity for the years then ended.

### CONSIDERATION OF INTERNAL CONTROL

In planning and performing our audit, we considered FCC's internal control over financial reporting as a basis for designing our auditing procedures and to comply with the Office of Management and Budget (OMB) audit guidance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on internal control and compliance or on management's assertion on internal control included in MD&A. Accordingly, we do not express an opinion on the effectiveness of the entity'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a

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1

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misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

We identified certain deficiencies, as described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be a material weakness or significant deficiencies. The deficiencies are summarized as follows:

Material Weakness – Exhibit I

- USF Budgetary Accounts

Other Significant Deficiencies – Exhibit II

- Financial Reporting Process;
- Allowance for Loss on Accounts Receivable Methodology; and
- Information Technology Control Deficiencies.

These deficiencies in internal control may adversely affect any decision by management that is based, in whole or in part, on information that is inaccurate because of these deficiencies. Unaudited financial information reported by FCC, including budget information, also may contain misstatements not prevented or detected because of these deficiencies.

In addition, we noted other matters involving internal control and its operation that are not considered significant deficiencies that we will communicate in a separate management letter.

**COMPLIANCE WITH LAWS AND REGULATIONS**

Except as noted below and described in Exhibit III, our tests of FCC's compliance with selected provisions of laws and regulations for fiscal 2008 disclosed no instances of noncompliance that would be reportable under United States Government Auditing Standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

The continuing instances of noncompliance are summarized as follows:

- Federal Managers Financial Integrity Act of 1982 (FMFIA)
- Debt Collection Improvement Act of 1996 (DCIA)

**STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES AND NONCOMPLIANCE ISSUES**

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have reviewed the status of FCC's corrective actions with respect to the findings and

recommendations included in the prior year's Independent Auditor's Report dated November 13, 2007. Exhibit IV provides a discussion on the status of prior year findings and recommendations.

#### **CONSISTENCY OF OTHER INFORMATION**

FCC MD&A included as Section I is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory information, performance information and other accompanying information listed in the table of contents are presented for additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### **OBJECTIVES, SCOPE AND METHODOLOGY**

FCC management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met, and (3) complying with other applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Annual Financial Report.

In order to fulfill these responsibilities, we (1) examined on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of FCC and its operations, (including safeguarding of assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA, and (7) tested compliance with selected provisions of certain laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to risk that controls may become

inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to FCC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to FCC's financial statements for the fiscal year ended September 30, 2008. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB guidance.

**AGENCY COMMENTS AND OUR EVALUATION**

In commenting on a draft of this report (Exhibits I, II & III), FCC concurred with the facts and conclusions in our report.

\*\*\*\*\*

This report is intended solely for the information and use of FCC's management, FCC's Office of Inspector General, OMB, the 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.

*Clifton Henderson LLP*

Calverton, Maryland  
November 13, 2008

**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT I  
September 30, 2008**

**MATERIAL WEAKNESS**

**1. USF Budgetary Accounts**

USF management does not have formal policies and procedures that provide detailed guidance or instructions on the accounting for recoveries of prior year obligations although these recoveries constitute a significant balance on the FCC's consolidated financial statements. During our interim testing, we inquired about the accounting treatment for the recoveries reported in the FCC Statement of Budgetary Resources. FCC researched the issue and determined that USF management did not record the downward and upward adjustments during fiscal year 2007 and for the eight months ended May 31, 2008, as verbally instructed by FCC management.

The Universal Service Administrative Company (USAC) failed to properly implement FCC's verbal instruction to record all expirations at the Funding Request Number (FRN) level as downward adjustments and all re-instatements as upward adjustments. It continued to record the net change in recoveries by program funding year in FY 2007.

During FY 2008, the FCC followed up on its original instruction to USAC and directed USAC again to book the recovery events at the FRN level as discreet upward and downward adjustments for all of fiscal year 2008; the change was implemented and retroactive adjustments made back to October 1, 2007, as of June 30, 2008.

During September 2008, FCC management obtained guidance from the Office of Management and Budget (OMB) on the preferable accounting treatment for USF's expired commitments. OMB concurred with FCC's proposed methodology of accounting for the upward and downward activity for Funding Request Numbers (FRNs) as two separate and distinct accounting events. This methodology is different from USF's practice in FY 2007 and prior years of recording downward and upward adjustments for obligations based on net expirations by program funding year. Consequently, this procedure change resulted in an understatement of approximately \$437 million related to expired activity recorded in the recoveries of prior year obligations and obligated incurred balances at September 30, 2007.

In addition, during the audit process, a second matter surfaced concerning the SBR. This issue was due to a misinterpretation of instructions provided by the FCC to USAC concerning how to account for posting activity on expired commitment letters. The result of this error was that the reversal of the FY 2007 upward adjustment accrual (reported on line 8 of the SBR) in the amount of \$548 million was incorrectly recorded as a downward adjustment or recovery of prior year obligations (on line 2 of the SBR). The initial accrual entries and the reversal of those entries should have been netted in the same account and cross-walked to the obligation incurred balance reported on line 8 of the SBR. The recording of these transactions overstated the upward and downward adjustments by \$548 million.

**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT I  
September 30, 2008**

Although the net effect of these two matters of approximately \$111 million or 0.96% of the Total Budgetary Resources reported on the SBR did not result in prior period adjustments to either the "Total Budgetary Resources" or the "Total Status of Budgetary Resources", the above scenarios illustrate the USF and FCC's lack of an adequate and/or detailed review over the journal entries to identify the error and ensure accurate reporting. This condition is driven in part by USF financial management staff not being fully familiar with federal financial accounting standards and reporting requirements. USF, as a FCC component entity, should fully understand and take responsibility for its financial results. The FCC's review should serve as an additional layer of review control for financial reporting.

**Recommendations:** We recommend that FCC management:

1. Focus management's efforts on performing periodic in-depth 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. (New)
2. 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. (New)

FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT II  
September 30, 2008

**SIGNIFICANT DEFICIENCIES**

**1. Financial Reporting Process**

The FCC financial statements comprise the financial results of the following reporting components (Entity): The Commission (FCC), the Universal Service Fund (USF), The Telecommunications Relay Services Fund (TRS) and the North American Numbering Plan (NANP). The FCC has the oversight responsibilities over the other component entities. USF, TRS and NANP are administered by other organizations independent of FCC. The FCC and its component entities must have financial systems in place to meet the stringent reporting requirements mandated by OMB. 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 their financial data in the FCC consolidated financial statements.

We noted that deficiencies continue to exist in the FCC entities' internal controls relating to the financial reporting process as outlined below:

- a) Financial Systems do not fully support financial management or facilitate the automated preparation of accurate Financial Statements;
- b) Lack of automated integration of component entities' Trial Balances.

The following provides a status of several of the deficiencies noted in our prior year report along with examples of the effect that inadequate financial management systems and continued internal control deficiencies had on the financial statements provided for audit throughout FY 2008.

***a) Financial Systems do not fully support financial management or facilitate the timely preparation of accurate Financial Statements***

Financial statements should be prepared from an accounting system that is an integral part of a financial management system containing sufficient structure, effective internal controls, and reliable data. Once implemented, this financial management system should allow an entity to prepare reliable financial statements in a timely and efficient manner. The FCC reporting component entities' current financial systems and processes are not capable of achieving this goal. Many of the entities' significant transactions are tracked on Excel spreadsheets and recorded into the general ledger at the summary level. Examples include:

- o Spectrum Auction Activities for FCC
- o Investment Transactions for USF and TRS
- o Deferred Revenues for FCC
- o Accounts Payable Transactions for USF
- o Loans Transactions for FCC
- o Budgetary Transactions/Entries for USF and TRS
- o Property Transactions for FCC
- o On-top Financial Statement Adjustments
- o Accounts Receivable maintained outside of the AR Subsidiary Ledger for USF

**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT II  
September 30, 2008**

Due to the lack of system interface or integration capabilities between the subsidiary systems and the general ledger systems, many routine transactions were periodically recorded into the general ledger at the summary level. Such manual processes are time consuming and increase the risk of potential errors in the financial statements.

Significant manual effort was needed to post transactions before the data was good enough to conclude that there is relatively low risk that further misstatements would be material in relation to the financial statements. Prior to preparing the consolidated financial statements at September 30, 2008, over 2,200 adjustments with an absolute value of approximately \$148 billion were made by FCC entities. The volume and amount of these adjustments show that the current financial systems are not working properly to accurately record routine transactions. Also, the frequent use of nonstandard entries inherently increases the potential for errors, as nonstandard accounting entries increase the risk of bypassing accounting and system controls

***b) Lack of automated integration of component entities' Trial Balances***

Each FCC component entity is responsible for preparing a complete trial balance from its own financial management system(s). Certain aspects of those systems are not compliant with the OMB Circular A-127 requirements as they are not fully integrated with the subsidiary systems and do not record financial activities at the transaction level compliant with the U.S. Government Standard General Ledger (SGL). In order to prepare its consolidated financial statements and related footnotes, the FCC's Office of the Managing Director, Division of Financial Operations, uses a manually intensive process of compiling the component entities' trial balance and financial data in numerous spreadsheets that are subsequently "cross-walked" to the financial statements and footnote balances. This process is extremely time-consuming and could result in errors that are difficult to identify and track. It also could hinder management from adequately reviewing the statements in a timely manner.

**Recommendations:** Certain FCC component entities are in the process of implementing new systems that are intended to replace their current systems. In order to implement OMB reporting requirements, we recommend that FCC:

3. 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 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, 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. (Updated)

**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT II  
September 30, 2008**

4. 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. (New)

**2. Allowance for Loss on Accounts Receivable Methodology**

In FY 2008, USF developed a historical trend analysis in accordance with its methodology to estimate the allowance for loss on accounts receivable (ALAR) related to the accounts receivable reported for FCC. Throughout FY 2008, USF management did not follow a consistent methodology or trend when recording the ALAR and management's expectation for what was considered a normal collection pattern was not established prior to applying the calculation. For example, the ALAR calculation and trend analysis at June 30 2008 was not consistent with the methodology at September 30, 2007. Also, the ALAR calculation and trend analysis at September 30, 2008 was not consistent with the methodology at June 30, 2008.

USF reported approximately \$278 million as ALAR on approximately \$1.1 billion of accounts receivable (AR) as of September 30, 2008, which approximates 25% of the accounts receivable balance and is material to the FCC financial statements. USF management performed collections analysis on all types of receivables in calculating the ALAR except for contributor invoiced receivables of approximately \$708 million. At June 30, 2008, USF management selected a December 31st 3-year annual collection average rate by type for the previous three fiscal years (FY 05-07) in accordance with its then existing procedure. Management then used the average collection rate multiplied by the outstanding receivable balances to arrive at the amounts to be reported as the ALAR. At September 30, 2008, management revised the ALAR methodology to calculate ALAR rates that are applied to outstanding AR balances by type based on a 12 quarter weighted average percentage. Based on the aforementioned methodology, the percentage used to calculate the ALAR will continuously be a moving average, which could fluctuate greatly if there is an abnormal quarter. As a result, a change in estimate to the ALAR may occur and not be supported due to the fact that the abnormality was not appropriately evaluated by management.

In accordance with the Statement of Federal Financial Accounting Standard #1, "Accounting for Selected Assets and Liabilities", an entity should recognize and report on its financial statements losses due to uncollectible amounts measured through a systematic methodology. The systematic methodology should be based on analysis of both individual accounts and a group of accounts as a whole. Within a group, receivables are further stratified by risk characteristics. Examples of risk factors are economic stability, payment history, alternative repayment sources, and aging of the receivables. Statistical estimation should take into consideration factors that are essential for estimating the level of losses, including historical loss experience, recent economic events, current and forecast economic conditions, and inherent risks. Accounts that represent significant amounts should be individually analyzed to determine the allowance reserve.

USF management revised its ALAR policies and procedures. However, USF management did not finalize policies and procedures for the ALAR methodology throughout FY 2008.



**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT II  
September 30, 2008**

Therefore, the calculation for ALAR was not performed consistently from year to year or from FY 2008 quarter to quarter. Management provided a version of the ALAR policies and procedures used to calculate and perform the historical trend analysis in August, 2008. We noted that the policy section of the aforementioned document did not contain the following:

- A historical trend analysis that considers age of the receivables to validate the ALAR reserve.
- Information on how the fluctuation analysis expectation should be developed, and the data that will be used to corroborate explanation as well as the overall conclusion on the methodology. The current policy supported a moving ALAR percentage based on a 12-quarter average.
- A requirement for reviewing the ALAR on an item by item basis when the amounts owed by individual carriers are material and for considering the impact of the materiality on the overall ALAR separately rather than treating them as part of the group.
- A requirement for performing fluctuation analyses of amounts reported by types of receivable and age after the calculation is completed.
- Criteria as to which circumstances or factors may render the methodology invalid and thus require further refinement or reinvention.

**Recommendations:** We recommend that USF management:

5. 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 the 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.
6. Periodically assess the adequacy of the ALAR by comparing the recorded amounts to the estimated amounts. Any adjustments to the current methodology should be

**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT II  
September 30, 2008**

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. (New)

**3. INFORMATION TECHNOLOGY CONTROL DEFICIENCIES**

FCC needs to improve its entity-wide security program plan. For example, FCC has not certified and accredited all its major applications and general support systems, risk assessments were not conducted to identify risks to which the Commission's information technology resources might be exposed and security policies and directives were either expired or not developed. FCC's strategy for addressing controls will not be effective without strong management oversight to ensure policies and procedures are consistently applied and execution meets acceptable standards.

We have identified issues that reflect a combination of these deficiencies that were previously communicated to FCC management. These issues are discussed below:

**a) Entity-wide Security Program Planning and Management**

During FY 2008, FCC changed its Information Technology Management Team (Chief Information Officer, Deputy Chief Information Officer and Computer Security Officer). The new team commenced improving its entity-wide security program. However, continued efforts are required especially in the areas of security administration and oversight. Specifically, we noted that risk assessments for several FCC major applications were not performed; certification and accreditation was not conducted for 50% of FCC's major applications; some security plans were not updated regularly; the Commission's plan of action and milestones process was deficient; employee new hire and termination processes were not operating effectively; and documentation was not properly maintained for terminated employees in our sample.

Office of Management and Budget (OMB) Circular No. A-130, Appendix III *Security of Federal Automated Information Resources*, requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, and stored in general support systems and major applications.

Without an effective entity-wide security plan, FCC has an increased risk that security controls are inadequate and inconsistently applied. Such conditions may lead to insufficient protection of sensitive data and high expenditures for controls over low risk resources.

**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT II  
September 30, 2008**

***b) Access Controls***

During our FY 2008 review, we noted that management and technical controls were not in place to limit, detect, or monitor access to FCC networks. These controls are necessary to protect the networks from unauthorized modification, disclosure, loss or impairment. Not all Government-owned laptop computers and other portable devices had been encrypted and/or password protected, password controls were weak and user access re-certification was not consistently performed. Additionally, there was no evidence of management's review and approval of remote privileged access to FCC resources for a sample of FCC users tested.

NIST Special Publication 800-42, *Guideline on Network Security Testing*, requires agencies to make network security testing a routine and integral part of the system and network operations and administration. OMB Memorandum M-07-16, *Safeguarding against and Responding to the Breach of Personally Identifiable Information*, identifies a number of steps to greatly reduce the risks related to a data breach of personally identifiable information, while the Federal Information Processing Standards Publication (FIPS PUB) 200, *Minimum Security Requirements for Federal Information and Information Systems*, specifies minimum access controls for federal systems.

Access controls should be in place to consistently limit, detect, or monitor access to computer programs, data, equipment, and facilities thereby protecting against unauthorized modification, disclosure, loss, or impairment. Such controls include both logical and physical security controls to ensure that federal employees, contractors, and staff are only granted access privileges necessary to perform business functions.

***c) Service Continuity***

FCC's Continuity of Operation Plan (COOP) did not include components recommended by NIST SP 800-34 such as backup requirements, preventive controls and associated personnel and recovery strategies. There was no approved IT Disaster Recovery plan and some terminated employees still had access to FCC's backup media stored offsite. Additionally, FCC's service provider did not perform disaster recovery tests of its major applications.

NIST 800-34, *Contingency Planning Guide for Information Technology Systems*, defines a seven-step contingency process that an agency may develop to maintain a viable contingency planning program for their IT systems.

Service continuity controls ensure that when unexpected events occur, critical operations continue without interruption and critical and sensitive data are protected from destruction.

***d) Change Control***

During our review of FCC's Application Development and Change Controls, we noted that a uniform configuration management plan had not been developed for the consistent testing, approval and implementation of configuration changes across all FCC applications, and responsibilities of database administrators and application developers for two major applications were not appropriately separated between development and production.

**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT II  
September 30, 2008**

Furthermore, infrastructure changes were not approved by the Change Advisory Board (CAB) for almost fifty percent of sampled changes.

OMB Circular A-130 Appendix III, Security of Federal Automated Information Resources, defines separation of duties as the practice of dividing the steps in a critical function among different individuals. For example, one system programmer can create a critical piece of operating system code, while another authorizes its implementation. Such a control keeps a single individual from subverting a critical process.

Failure to implement a uniform configuration management plan for all FCC applications increases the risk that the approval, testing and implementation of application changes might not be consistently applied.

**Recommendations:** We recommend that FCC management:

7. Strengthen its security administration; develop new policies when necessary; renew security policies and procedures before they expire; recertify and accredit systems before the accreditation expires and address security vulnerabilities noted in FCC's technology infrastructure (updated).
8. 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)
9. 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)

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FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT III  
September 30, 2008

**COMPLIANCE WITH LAWS AND REGULATIONS**

Except as noted below, our tests for compliance with selected provisions of laws and regulations disclosed no other instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. The objective of our audit was not to provide an opinion on the Agency's overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

**1. The Federal Managers' Financial Integrity Act (FMFIA) (Repeat Condition)** - The FMFIA requires agencies to establish management controls over their programs and financial systems as stated in the following sections of the Act:

- 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 expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports.
- Section 4 seeks to assess nonconformance with governmentwide financial systems requirements.

OMB Circular A-127 offers guidance in implementing FMFIA. OMB Circular A-127 requires 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." Furthermore, in doing so, "Financial systems design shall eliminate unnecessary duplication of transaction entry. Whenever 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."

Moreover, OMB Circular A-127 requires that agency financial management systems be reviewed for compliance with specified minimum requirements. These include: Agency-wide Financial Information Classification Structure; Integrated Financial Management Systems; Application of the U.S. Government Standard General Ledger at the Transaction Level; Federal Accounting Standards; Financial Reporting; Budget Reporting; Functional Requirements; Computer Security Act Requirements; Documentation; and Internal Controls.

In fiscal year 2008, as in prior years, the FCC has not fully complied with certain requirements of the FMFIA. See details in our Independent Auditor's Report on Internal Control Section Significant Deficiency No. 1. FCC management should address and resolve the deficiencies noted in the Internal Control Section Significant Deficiency No. 1 of the audit report. The key items we identified include:

- FCC's current financial management system does not provide for effective and efficient interrelationships between the FCC and its *component* entities' financial information systems. Many of FCC's and its *component* entities' significant types of transactions are tracked on Excel spreadsheets and are recorded at a later time into

**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT III  
September 30, 2008**

the general ledger at a summary level. In order to prepare the consolidated financial statements and notes, FCC must compile the component entities' financial data in numerous spreadsheets that are then cross-walked to the financial statements and footnote balances. This process does not facilitate the timely preparation of accurate financial statements, is extremely time consuming, and increases the risk that errors may be present and not detected.

- OMB Circular No. A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating and reporting on financial management systems. During our review in Fiscal Year 2008, we noted that FCC has started but not completed OMB Circular A-127 reviews of its financial management system.

**Recommendation:**

10. We recommend that management complete OMB Circular A-127 reviews for its financial management system.

- 2. Debt Collection Improvement Act (DCIA) of 1996 (Repeat Condition)** - In accordance with DCIA, the FCC is required to refer eligible receivables that are delinquent to Treasury for collection or offset. Eligible receivables include those that are not the subject of litigation, related to foreclosure proceedings, or from organizations in bankruptcy. In addition, CFR 31 Part 901 requires agencies to charge interest, penalties, and administrative costs on delinquent debt and, unless otherwise established in a contract, repayment agreement, or by statute, the rate of interest charged should be at the rate established annually by the Secretary of the Treasury.

- In the third quarter, the FCC did not transfer approximately \$15 million in delinquent receivables over 180 days to Department of Treasury as required by the Debt Collection Improvement Act. In addition, FCC submitted its 3<sup>rd</sup> quarter Treasury Report on Receivables (TROR) for Administrative Loans that contained an error in the amount of approximately \$237 million to be transferred to Treasury.

**Recommendations:** We recommend that FCC management:

11. 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.

**FEDERAL COMMUNICATIONS COMMISSION  
INDEPENDENT AUDITOR'S REPORT EXHIBIT IV  
September 30, 2008**

**STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS**

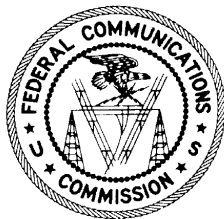
As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of the FCC component entities' corrective actions with respect to the findings and recommendations included in the prior year's report on FCC component entities' internal control dated November 13, 2007. The following analysis provides our assessment of the progress the FCC component entities have made through September 30, 2008 in correcting the noted deficiencies identified in the FY 2007 Internal Control report.

<b>I. Financial Reporting</b>			
<b>Recommendation No.</b>	<b>Condition Audit Area</b>	<b>Recommendation</b>	<b>Current Status</b>
1	A. FCC Entity	Evaluate the need to link or interface the auction spreadsheets/database with the FFS and/or the correction of the RAMIS auction module programming with the objective of having an integrated system that will generate correct data without manual intervention.	Updated – reported in current year recommendation #3
2	A. FCC Entity	Ensure that ITS and PPE transactions are integrated/interfaced with FFS.	Updated – reported in current year recommendation #3
3	A. FCC Entity	Consider using an automated compilation system that will allow component entity trial balances to be interfaced/loaded electronically and that will establish a greater level of control over the conversion of trial balances into financial statement and footnote balances.	Updated – reported in current year recommendation #3
4	B. Component Entities	Either interface various spreadsheets to the core financial system or re-assess the functional requirements of the existing financial system (such as the need for sufficient details for the accounts receivable and accounts payable subsidiary ledgers) to achieve an integrated financial management system.	Updated – reported in current year recommendation #3
5	B. Component Entities	Record USF and TRS budgetary entries at the transaction level and to the appropriate standard general ledger budgetary accounts timely.	Updated – reported in current year recommendation #3
6	B. Component Entities	Perform periodic reconciliation (preferably monthly but at least quarterly) of the accounts receivable transferred from USF to FCC and ensure that reconciling items are promptly followed up and resolved. Clearly define responsibilities for monitoring and reviewing the reconciliation process.	Closed
<b>II. Debt Collection Improvement Act</b>			
7	Debt Collection	Refer all delinquent debt more than 180 days old to the Treasury for offset or for cross servicing in a timely manner.	Repeat – reported in current year recommendation #12

III. Compliance with OMB Circular No. A-130, <i>Requirement for a Comprehensive Security Plan</i>			
Recommendation No.	Condition Audit Area	Recommendation	Current Status
8	Compliance A-130	Ensure that transmission of all sensitive data to and from the FCC's contractors and business partners is protected and encrypted.	Closed
9	Compliance A-130	Ensure that MOUs and/or ISAs are signed with all major external entities that the FCC shares data with, or whose systems are interconnected with the FCC systems.	Closed
10	Compliance A-130	Ensure that FCC Computer Incident Response Team conducts meetings in accordance with the FCC Computer Incident Response Team Desk Reference Guide.	Closed
11	Compliance A-130	Consistently implement the certification and accreditation process for all of the FCC's major applications and general support systems. a. Recertify and accredit major applications that have had significant changes to their operating environment in accordance with NIST Special Publication 800-37 and FCC Directive 1479.3 . b. Ensure that all new major applications are certified and accredited before being placed into production. c. Ensure that the six major applications and one general support system are recertified and accredited.	Updated – reported in current year recommendation #8
12	Compliance A-130	Implement procedures to ensure the prompt revocation of access to the FCC resources at the effective date of termination of employees and contractors.	Updated – reported in current year recommendation #8
13	Compliance A-130	Document the policies and procedures for granting access to FCC's networks and systems.	Repeat – reported in current year recommendation #8
14	Compliance A-130	Develop and implement procedures and processes for the consistent implementation of common configuration management controls to minimize security deficiencies in general support systems.	Updated – reported in current year recommendation #10
15	Compliance A-130	Improve and enhance control procedures for the handling and maintenance of sensitive information at the FCC.	Closed
16.	Compliance A-130	Complete the OMB A-127 reviews in fiscal year 2008.	Updated – reported in current year recommendation #11



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*Office of the Managing Director*

**MEMORANDUM**

**DATE:** November 14, 2008

**TO:** Kent R. Nilsson, Inspector General

**FROM:** Anthony J. Dale, Managing Director and Mark Stephens, Chief Financial Officer

**SUBJECT:** Management's Response to Independent Auditor's Reports on Internal Controls and Compliance with Laws and Regulations for Fiscal Year 2008

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditor's Report on Internal Control* and *Independent Auditor's Report on Compliance with Laws and Regulations*. We appreciate the efforts of your team and the independent auditor, Clifton Gunderson LLP, to work with the Federal Communications Commission (Commission) throughout the fiscal year (FY) 2008 audit process.

We are pleased that, for the third straight year, the independent auditor provided an unqualified opinion and found that the Commission's consolidated financial statements for FY 2008 present fairly, in all material respects, the financial position of the Commission as of September 30, 2008. Three straight years of clean audit opinions is an unprecedented accomplishment for the Commission. 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 2008 audit report points out one material weakness and three significant deficiencies related to internal controls and notes two instances of non-compliance that still need to be resolved. The primary areas of concern relate to financial reporting, the modernization of the Commission's and its reporting components' financial management systems, information technology control weaknesses, and instances of non-compliance with the Debt Collection Improvement Act. We concur with the recommendations made by the independent auditor in its report.

First, we would like to address the material weakness. For the first time since 2005, the independent auditor identified a material weakness in the Commission's internal controls over its finance and accounting operations. Specifically, the independent auditor concluded that the Universal Service Administrative Company (USAC), which administers the \$7.8 billion Universal Service Fund (USF) under Commission oversight, misinterpreted the Commission's instructions and failed to properly implement a change to an accepted accounting method. The independent auditor notes that USAC's internal control breakdown was isolated to only one of the Commission's five financial statements, the Statement of Budgetary Resources (SBR). The Commission and USAC have already started

implementing appropriate corrective action to ensure this or similar breakdowns do not occur in the future. The Commission has directed USAC to:

1. Finish implementing corrective action as soon as possible.
2. Ensure its accounting staff is appropriately resourced and trained.
3. Conduct a comprehensive assessment of its policies and procedures governing preparation of the SBR to ensure that the identified breakdown is not more significant.
4. Perform periodic in-depth financial analysis including fluctuation and trend analysis on a quarterly basis
5. Notify the Commission's Chief Financial Officer (CFO) of the dates and times scheduled for its Senior Management Council to meet so that the CFO or his staff may attend.
6. Submit the risk assessments conducted by its Senior Management Council to the Commission's CFO and to the Inspector General for review and comment.
7. Consider adverse findings in internal control assessments in rating, compensating, and awarding USAC executives.

The independent auditor's conclusion underscores the need for strong Commission oversight of USAC. During FY 2008, the Commission revised and strengthened the existing Memorandum of Understanding (MOU) with USAC, required USAC to implement a performance-based executive compensation program, and directed USAC to take strong measures to prevent and deter potential improper payments. Still, USAC's failure to properly implement the Commission's instructions concerning its budgetary accounting procedures highlights the importance of the Commission taking an active role to ensure USAC administers the USF in an efficient, effective manner. During FY 2009, we plan to continue our record of strong oversight of USAC and the USF.

With regard to addressing the significant deficiency and instance of non-compliance related to the Commission's and its reporting components' financial systems, the Commission has taken steps throughout FY 2007 and 2008 to resolve the auditor's findings and improve the performance of its financial reporting through the implementation of a new core financial management system. The Commission is currently relying on a core financial management system that will soon be obsolete and will not be 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 and to establish a legacy of effectiveness. 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 as it moves to the new core financial system. At this time, the Commission plans to complete the deployment of the new financial system by October 1, 2010. At the same time, the Commission is closely monitoring the progress of its reporting components' efforts to modernize their financial systems.

With regard to addressing the significant deficiency related to USAC's methodology for allowances for losses on accounts receivables for the USF, the Commission will work with USAC to resolve this issue by requiring historical trend analysis that considers the age of the receivables to validate the necessary reserve.

With respect to the significant deficiency related to information technology control weaknesses, the Commission is already working to fully assess the auditor's 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 2009, 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.

Finally, with respect to the instance of non-compliance concerning timely transfer of delinquent debt to the Department of the Treasury for collection, the Commission has worked throughout the past fiscal year to remedy this issue. During FY 2008, the Commission performed a significant transfer of delinquent debt and reached the 98% percent transfer mark for the fiscal year. The Commission plans to fully address this issue in FY 2009 and ensure that all reporting in this area is accurate.

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 2009 to resolve the FY 2008 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.



Anthony J. Dale, Managing Director  
Office of Managing Director



Mark Stephens, Chief Financial Officer  
Office of Managing Director

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## 4. 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
<i>Total Material Weaknesses</i>	0	1	0	0	1

### *Summary of Management Assurances*

<b>Effectiveness of Internal Control over Operations (FMFIA § 2)</b>						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
USF Budgetary Accounts		1				1
<i>Total Material Weaknesses</i>	0	1	0	0	0	1
<b>Conformance with financial management system requirements (FMFIA § 4)</b>						
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	✓					✓
<i>Total Non-Conformances</i>	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. Based on the Commission's and independent auditors' evaluations of disbursements from these eight programs, there are two programs, the Universal Service Fund's (USF) Schools and Libraries Program and High Cost Support Program, that continue to have sufficient volume and error rates to warrant further investigation and monitoring. In prior reviews of its programs, the Commission had identified these two programs as susceptible for significant improper payments based on the information available. Further testing and analysis by the Commission's Office of Inspector General (OIG) confirmed the Commission's belief. The OIG's testing and analysis in FY 2007 also resulted in the identification of a third USF program, the Low Income program, as being at risk for significant improper payments. Finally, it should be noted that the Commission's OIG performed testing and analysis of the fourth USF support mechanism, the Rural Health Care program, as well as the receipts function of USF, known as the USF Contributions Mechanism. Because neither the Rural Health Care program nor the USF Contributions Mechanism meets the IPIA criteria for reporting, no additional information on these programs is included here. During FY 2008 the OIG continued testing and analysis of the High Cost Program, Schools and Libraries Program and the Low Income Program. It is our expectation that additional information and results from FY 2008 testing will be made available sometime in the near future. Previous results of OIG testing and analysis of all of these programs is available at: <http://www.fcc.gov/oig/>.

## ***II. Statistical Sampling Process***

The Commission's OIG worked with the USF Administrator, the Universal Service Administrative Company (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. The statistical sampling plan called for a 90 percent confidence level. Disbursements made during FY 2005 to the USF beneficiaries in the sample were then audited, and the results were used to calculate improper payment rates for the universe of beneficiaries. Additional details are 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 outside the acceptable parameters established by the Office of Management of Budget (OMB) of plus or minus 2.5 percent for measuring improper payments. As a result, the Commission, its OIG, 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**

As previously reported by the OIG and included in the Commission's FY 2007 PAR, the High Cost program sample design was a simple random sample of 65 Study Area Codes pulled from a population of 1,896 Study Area Codes. Compliance determinations from the audits were limited to 53 providers for which the auditors were able to give an opinion. When including the 12 provider audits where no opinion was rendered in the improper payment estimate as each being a 100 percent improper payment due to lack of documentation, the results of the audits showed an improper payment rate of 16.56 percent with a plus

or minus 10 percent margin of error. In FY 2008 the OIG performed additional audits to improve the precision of the results and that work is forthcoming.

#### Low Income

As previously reported by the OIG and included in the Commission's FY 2007 PAR, the Low Income program sample design was a two-stage, stratified simple random sample of 60 Study Area Codes from a population database of 1,555 Study Area Codes. The OIG estimated that the improper payment rate was 9.5 percent with a margin of error of plus or minus 2.1 percent, which falls within the parameters of OMB's improper payments guidance. In FY 2008 the OIG performed additional work to better understand the FY 2007 results and that work is forthcoming.

#### Schools and Libraries

As previously reported by the OIG and included in the Commission's FY 2007 PAR, the Schools and Libraries program sample design used a stratified simple random sample of 155 Funding Request Numbers from a population database of 95,558 Funding Request Numbers. The OIG estimated that the erroneous payment rate was 12.9 percent with a margin of error of plus or minus 4.5 percent. In FY 2008 the OIG performed additional audits to improve the precision of the results and that work is forthcoming.

### ***III. Corrective Action Plans***

In developing its corrective actions plans, the Commission is working with the OIG, who is overseeing the audit portion of this process, and USAC, who is responsible to protect the USF by taking corrective action to implement the recommendations of the auditors. As noted previously, the OIG audited FY 2005 disbursements and is in the process of auditing more recent disbursements and the results are forthcoming. The 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 this 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.

After the results of the FY 2007 audit reports were analyzed, the Commission directed the USF Administrator (USAC) to recover all improper payments identified by the auditors 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 when the results of the FY 2008 audits are final.

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 Inspector General's first round of 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 Inspector General’s 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)***

Program	FY 05 Outlays	FY 05 %	FY 05 \$
High Cost - USF	\$3,748	16.54	\$620
Low Income - USF	\$796	9.49%	\$75.5
Schools and Libraries - USF	\$1,630	12.88%	\$210

Notes: As discussed previously, the information in the table above was generated based on audits of disbursements made during FY 2005. The Commission will update the above table after the results of the FY 2008 audits are final.

***V. Recovery Auditing Reporting***

The Commission does not enter into contracts with a total value in excess of \$500 million in a fiscal year and therefore is not subject to the recovery audit reporting requirements for this question. 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.

***VI. Management Accountability***

The Commission is working with USAC’s management to implement performance measurements for program management that will help ensure accountability over USAC’s operations and senior leadership.

***VII. Agency Information Systems and Other Infrastructure***

The Commission plans to use the results of the FY 2008 audits to establish a baseline for the High Cost and Schools and Libraries programs. In the case of the Low Income program, the Commission will be using the figure reported this year as a baseline. However, although the statistical estimates have been provided by the OIG for 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.

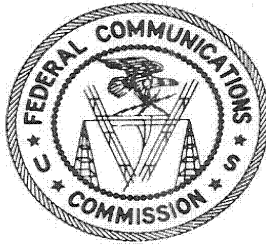
### ***VIII. Statutory and Regulatory Barriers***

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

### ***IX. Additional Comments***

The Commission learned a great deal over the past year from its experience with the first round of audits that were used to estimate improper payments. These audits helped inform the Commission and its OIG to perform the FY 2008 audit program and will bring the Commission closer to having clearer insights into the causes of improper payments in these USF programs.

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UNITED STATES GOVERNMENT  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF INSPECTOR GENERAL

## MEMORANDUM

**DATE:** October 16, 2008  
**TO:** Kevin J. Martin, Chairman  
**FROM:** Kent R. Nilsson, 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 2009 and beyond.

During our investigations and audits we have worked with managers at 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 has supported many investigations of fraudulent activity and, through oversight of a USAC audit program over the past 2 years, found very high rates of improper payments from the fund. The highest rates of improper payment relate to the telecommunication carriers serving high cost areas, schools and libraries, and rural health care providers. OIG initiated audits have resulted in findings having a potential monetary recovery of

nearly \$12 million dollars from the USF program. 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 enforces and interprets its rules continue to be significant management challenges.

#### **Telecommunications Relay Service (“TRS”) Fund**

The TRS Fund 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 fund have grown substantially over the years and there is an inherent risk of fraud, abuse, and improper payments as a result of the manner in which the fund is administered by the National Exchange Carrier Association (“NECA”).

The Office of Inspector General engaged an independent audit firm to perform audits of TRS service providers. The auditors found that some providers had reported inappropriate costs to NECA and that some providers had inappropriately billed the TRS Fund for minutes of service. Improving the administration of the TRS Fund, tightening the rate setting process, and improving management controls over the accuracy of reported costs and minutes of service continue to be significant management challenges.

#### **Modernize the FCC**

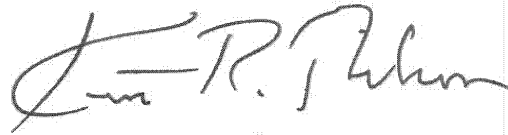
As stated in its strategic plan, the FCC must “create and sustain an organizational culture that encourages innovation, accountability, and continual improvement” and “ensure that its processes, procedures, and systems are integrated, reliable, and user-friendly.”

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. The Office of Inspector General recently completed a review of FCC’s management of information technology projects and recommended strengthening certain project management processes.

Another management challenge is to maintain effective financial management until the new core financial accounting system is fully implemented. The current financial system has several 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. Opportunities for mistakes and errors have become manifest throughout the process.

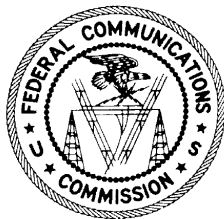
Sincerely,

A handwritten signature in black ink, appearing to read "Kent R. Nilsson". The signature is fluid and cursive, with the first name "Kent" being the most prominent.

Kent R. Nilsson

cc: Daniel Gonzalez, Chief of Staff  
Anthony Dale, Managing Director  
Mark Stephens, Chief Financial Officer

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*Office of the Managing Director*

**MEMORANDUM**

**DATE:** November 14, 2008

**TO:** Kent R. Nilsson, Inspector General

**FROM:** Anthony J. Dale, 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) for fiscal year (FY) 2009 and beyond. In its October 16, 2008 memorandum, the OIG identifies four 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 enforces and interprets its rules; (2) improving the administration of the Telecommunications Relay Service (TRS) Fund, tightening the rate setting process, and improving the accuracy of reported costs and minutes of service; (3) controlling and managing information technology (IT) projects; and (4) maintaining effective financial management until the new core financial accounting system is implemented.

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 the four challenges, management would like to note the level of effort that it places on resolving any identified control weaknesses. During FY 2008 alone, the Commission closed over 107 various audit recommendations, which is indicative of how much emphasis is placed on resolving management and performance challenges.

With respect to the challenge of improving the administration of the USF, the Commission built upon its efforts in FY 2007 and took significant additional actions during FY 2008 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 2008:

- The Commission revised and updated its Memorandum of Understanding (MOU) with USAC to improve the management, administration, and oversight of the USF. The Commission negotiated key changes to the MOU including requiring USAC to: implement procedures to eliminate the risk of actual and apparent conflicts of interest in procurements; use performance-based contracting, including financial-based incentives and penalties; implement additional safeguards for protecting confidential information; improve the security of its IT operations; submit an



annual report to the Commission describing IT security safeguards, including measures taken to implement IT security requirements applicable to Federal agencies; and notify the Commission's OIG, Office of Managing Director, Wireline Competition Bureau, and Office of General Counsel when it receives allegations or complaints that could result in a USF participant's loss of eligible services, and prior to USAC making any decision that could result in a USF participant losing an eligible service.

- The Commission issued a *Notice of Inquiry (NOI)* seeking recommendations on ways to prevent or reduce improper payments. In the *NOI*, the Commission is also seeking comment on ways to further strengthen management, administration, and oversight of the USF, how to define more clearly the goals of the USF, and to identify any additional quantifiable performance measures that may be necessary or desirable. The FCC also is seeking comment on whether and, if so, to what extent the Commission's oversight of the USF can be improved.
- The Commission initiated corrective action efforts in response to the results of the OIG's audit program for USF which included 459 audits of the USF program in FY 2007.
- The Commission directed USAC to take steps to prevent or reduce improper payments, including linking executive compensation to improper payment reduction, requiring increased public transparency into USAC payments, and directing USAC to strengthen its internal controls.
- The Commission sent USAC over 30 separate pieces of correspondence in FY 2008 providing direction on following up on audit findings, procurement activities, and USAC's operations.
- The Commission directed USAC to improve the quality of service provided to stakeholders; specifically, USAC must provide the Commission with a monthly complaints report.
- The Commission adopted an interim cap on high-cost support to competitive eligible telecommunications carriers pending comprehensive reform of the high-cost support mechanism.
- The Commission took the following enforcement actions against carriers that failed to comply with the USF rules: six debarments from the USF E-rate program due to criminal convictions; 12 suspensions from the USF E-rate program; six Notices of Apparent Liability totaling \$13,358,338; two Forfeiture Orders totaling \$501,765; and four consent decrees totaling \$684,400.
- The Commission performed monthly reviews of the administrative expenses of USAC. All beneficiary audit reports were reviewed and recommendations prepared to reduce waste, fraud and abuse.
- The Commission put a new monthly review process in place to ensure that the USF funds held outside of the U.S. Treasury are fully protected (collateralized) against bank defaults.
- The Commission conducted a fraud risk assessment and internal control analysis of USF and identified weaknesses to be strengthened.

With respect to improving the administration of the TRS fund, the Commission has taken several steps to improve the administration of the TRS fund throughout FY 2008, including:

- Most recently, the Commission initiated 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 and administration of the TRS Fund and ensure that the Fund will be administered in an efficient, effective manner.
- The Commission adopted and released a *Report and Order and Declaratory Ruling* that, in part, adopted new cost-recovery methodologies for the Internet-based forms of TRS, including Video Relay Service, Internet Protocol Relay, and Internet Protocol captioned telephone service. This order is intended to ensure that all forms of TRS, including the newer Internet-based forms of TRS, are compensated consistent with the TRS rules. By making certain that providers are compensated for only their reasonable actual costs of providing service, the Commission helps to

ensure that TRS services are available to consumers and are provided in compliance with the TRS service rules.

- The Commission directed the TRS administrator, the National Exchange Carrier Association (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.

With respect to the management of IT projects, the Commission has made significant progress in improving in this area in FY 2008. As noted in the Inspector General's Management Challenges memo, the OIG conducted an assessment of the Commission's IT project management during FY 2008. We are pleased that the assessment team found that the Commission has taken positive steps to develop an IT project management framework. The Commission has made the strengthening of its IT capital planning and investment control, and project management, a top priority. During FY 2008, the Commission established an IT Tactical Management Plan to track its investments and ensure that those investments make the best use of Commission resources. Currently, an IT Planning Team meets bi-weekly to review the status of the projects on the IT Tactical Management Plan. The results of these efforts are also monitored by the Commission's IT Steering Committee, which oversees the Commission's newly improved IT Strategic Plan. By revamping the IT Strategic Plan and implementing the IT Tactical Management Plan, the Commission made great progress in bringing its investments under a sustainable IT project management framework. This framework will assist the Commission in implementing long-term IT goals that best support the Commission's overall mission and performance goals.

Finally, with respect to maintaining effective financial management in the absence of a new core financial system, the Commission has taken several important steps. First, the Commission started the procurement process to obtain a new core financial system at the end of FY 2007 and selected a vendor during FY 2008. In preparation for this procurement, the Commission used a systematic methodology to document and analyze its current financial processes. This analysis provided the Commission with the insight it needed to identify areas for potential process reengineering and to define its needs for a new financial system. Building upon this analysis, the Commission developed an acquisition and implementation strategy to move to a new core financial management system that will best meet the Commission's business needs and will bring the Commission into substantial compliance with government-wide requirements. 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 as it moves to the new core financial system. At this time, the Commission plans to complete the deployment of the new financial system by October 1, 2010. 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.

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.



Anthony J. Dale, Managing Director  
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