



Federal Communications Commission  
Washington, D.C. 20554

February 16, 2011

DA 11-297

Mr. Scott Barash  
Acting CEO  
Universal Service Administrative Company  
2000 L Street, NW  
Washington, DC 20036

Dear Mr. Barash,

With this letter, we direct the Universal Service Administrative Company (USAC) to take further action in response to the “December 2010 USAC Final Report and Statistical Analysis of the 2007-08 High Cost Program Beneficiary Audits.”<sup>1</sup> In its report, USAC lists the most frequent issues arising from the 285 high-cost program audits from 2007-2008, including the five issues most frequently identified and the five issues associated with the highest dollar amounts of improper payments.<sup>2</sup> These findings for these two lists overlap and include the following: (1) inadequate/missing documentation; (2) inaccurate line count/loop data; (3) accounting errors; (4) subscriber list errors; (5) revenue reporting errors; (6) eligibility errors; and (7) other reasons.<sup>3</sup> We recognize and appreciate USAC’s efforts to reduce improper payments associated with these errors through outreach, oversight, management, audits, and information technology resources.<sup>4</sup>

In addition to these efforts, we instruct USAC, for each of the seven findings above, to examine, identify, explain, and categorize the cause(s) of each error.<sup>5</sup> For example, USAC should provide categories under each finding that explain and identify the core cause for the error(s) in each audit, and whether each error was due to a weakness in USAC’s internal controls or beneficiary controls or behavior. In addition, please provide a recommendation concerning how these errors, by category, can be corrected or eliminated – whether through modifications to USAC business practices and internal controls beneficiary controls and behavior. Finally, please review and recommend modifications to USAC’s programmatic instructions based on the above findings. Please provide these materials within 60 days from the date of this letter.

We recognize and appreciate USAC’s efforts to date in identifying and reducing improper payments under the high-cost program. Additional examination of the core causes of the top improper payment issues identified above are critical in further reducing improper payments and improving the

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<sup>1</sup> See Attachment, Universal Service Administrative Company, *Final Report and Statistical Analysis of the 2007-08 Federal Communications Commission Office of Inspector General High Cost Program Beneficiary Audits* (Dec. 15, 2010) (USAC High-Cost Report).

<sup>2</sup> See USAC High-Cost Report at 7.

<sup>3</sup> See USAC High-Cost Report at 7. A top finding was also due to errors in determining which companies were recently designated as eligible telecommunications carriers by the Commission, which were caused by manual data entry operations. See *id.* USAC reports this issue has been eliminated through system improvements automating the process for eligibility determination. See *id.*

<sup>4</sup> See USAC High-Cost Report at 8.

<sup>5</sup> See Office of Management and Budget, Circular No. A-123, *Requirements for Effective Management and Remediation of Improper Payments*, Issuance of Part III to OMB Circular A-123, M-10-13, Appendix C at 6 (revised Mar. 22, 2010).

efficiency and effectiveness of administration for the high-cost program. If you have any questions or wish to discuss these issues further, please do not hesitate to contact me.

Sincerely,

Steven VanRoekel  
Managing Director

Cc: Dana Shaffer  
Sharon Gillett  
Mark Stephens