



Federal Communications Commission  
Washington, D.C. 20554

February 16, 2011

DA 11-298

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

Dear Mr. Barash,

This letter requests additional information from the Universal Service Administrative Company (USAC) detailing its accounting of fixed assets for the universal service fund (USF). Specifically, in its 2009 Annual Report, USAC categorized fixed assets (furniture, equipment, leasehold improvements, computer hardware and software), totaling approximately \$16.5 million, as assets held for the USF but recorded on the USAC books of account.<sup>1</sup> The FCC has treated property and equipment purchased with USF monies as assets of the USF for purposes of the FCC's financial statements. In addition, for several years, USF was billed based upon USF profit and loss (P&L) expenses rather than USAC's actual cash disbursements. According to USAC, this methodology understated USF expenses and resulted in a cumulative adjustment to USAC's administrative expenses and a reduction in USAC's Due To/Due From balance.<sup>2</sup> As a result, USAC has proposed modifying its methodology for calculating the invoice between USAC and USF. In order to reconcile the Due To/Due From balance between USAC and USF, USAC has suggested an entry that will correct its invoicing methodology when recording USF fixed assets on the USAC books of account.

Given USAC's past accounting practices for USF fixed assets, and to further consider USAC's proposal, we are requesting that USAC provide us with a legal and accounting justification for recording all fixed assets purchased with USF monies on the USAC books of account rather than the USF books of account. In doing so, please explain how the practice of recording USF assets on the USAC books of account complies with section 254 of the Communications Act of 1934, as amended, Part 54 of the Commission's rules, Commission orders, and with appropriations law principles.<sup>3</sup> Finally, please describe, in detail, the accounting method used by USAC to record all property purchased by USAC contractors (including intellectual property) for which the USAC contractor is entitled to be reimbursed from USF monies. Please provide your response within 30 days of the date of this letter.

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<sup>1</sup> See 2009 Universal Service Administrative Company, 2009 Annual Report, at 18, 25 (available at [http://www.usac.org/\\_res/documents/about/pdf/usac-annual-report-2009.pdf](http://www.usac.org/_res/documents/about/pdf/usac-annual-report-2009.pdf)) (USAC 2009 Annual Report).

<sup>2</sup> See E-mail from James Gallagher, Universal Service Administrative Company, to Mark Stephens, Federal Communications Commission (Aug. 6, 2010).

<sup>3</sup> 47 U.S.C. § 254; 47 C.F.R. Part 54. See e.g., *Changes to the Board of Directors of the National Exchange Carrier Ass'n, Inc.*, Order, 12 FCC Rcd. 18,400, 18,443, n.166 (1997).

Thank you for your attention to this request and please let us know if you have any questions or wish to discuss these issues further.

Sincerely,

Steven VanRoekel  
Managing Director

Cc: Dana Shaffer  
Sharon Gillett