



Federal Communications Commission
Washington, D.C. 20554

March 24, 2011

DA 11-551

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

Dear Mr. Barash,

With this letter, the Commission provides instruction to the Universal Service Administrative Company (USAC) in response to certain recommendations resulting from KPMG, LLP's (KPMG) audit of the consolidated financial statements for the Federal Communications Commission (FCC) for Fiscal Years (FY) 2009 and 2010.¹

Office of Management and Budget (OMB) Circular A-123 states: "Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination."² Moreover, OMB Circular A-11, Section 130.411 states, "Downward adjustments do not include previously paid obligations which require a refund. These refunds will be recorded . . . when received."³

As part of KPMG's FY 2010 financial statements audit, it conducted interim internal control and substantive testwork. In doing so, KPMG determined that for FY 2010, USAC did not perform adequate review over budgetary journal entries to ensure the proper recording of upward and downward adjustments of prior year obligations.⁴ In addition, KPMG found that certain USAC personnel directly involved with the recording of budgetary transactions do not have adequate training on certain budgetary accounting requirements.⁵ These findings, as noted by KPMG, increase the risk of potential errors in the financial statements going undetected by management and could potentially result in non-compliance with the above-referenced OMB Circulars. KPMG therefore recommended that:

- FCC and USAC management should update and reinforce policies and procedures over budgetary transactions to provide a consistent and adequate review over upward and downward adjustments to prior year obligations; and

¹ See Letter from KPMG LLP to Managing Director, Federal Communications Commission (Nov. 12, 2010) (KPMG Letter); Exhibit, Budget-Upward and Downward Adjustments (NFR 7); Exhibit, USF Budget Policies and Procedures, *Notice of Findings and Recommendations*, Year Ended September 30, 2010, FCC NFR 10-07 (USF Budget Notice of Findings) (detailing the findings in the KPMG Letter).

² See OMB, Circular No. A-123, *Management's Responsibility for Internal Control*, § II, *Establishing Management Controls* (June 1995).

³ See OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, § 130.11 (July 2010).

⁴ See Exhibit, USF Budget Notice of Findings, Exhibit, Control Deficiencies, at 2.

⁵ See *id.*

- FCC and USAC management should ensure that USAC personnel that are directly involved with the recording and review of budgetary transactions receive additional training on budgetary accounting requirements.⁶

Accordingly, Commission staff will contact USAC soon to arrange a meeting within 30 days to discuss proposals for responding to the above recommendations and develop a plan of action. In advance of this meeting, please provide copies of USAC's current budgetary policies and procedures concerning upward and downward adjustments. Also, if you have any questions, please contact the FCC's Chief Financial Officer, Mark Stephens at MStephens@fcc.gov or 202-418-0817.

Sincerely,

Steven VanRoekel
Managing Director

Cc: Dana Shaffer
Mark Stephens

⁶ *See id.*