

FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

OFFICE OF  
MANAGING DIRECTOR

January 29, 2008

Mr. Scott Barash  
Acting Chief Executive Officer  
Universal Service Administrative Company  
2000 L Street, NW  
Suite 200  
Washington, DC 20036

RE: USAC's December 31, 2007 Report Concerning the Inspector General's 2006/2007  
Improper Payments Information Act USF Compliance Audits

Dear Mr. Barash:

This letter addresses your December 31, 2007 submission in response to the Commission's direction to provide recommendations on what additional steps USAC should take to prevent or reduce potential improper payments. Because USAC's report does not provide an adequate and complete response to the Commission's October 31, 2007 direction, we require USAC to submit a follow-up response within 30 days from the date of this letter.

In the Commission's October 31, 2007 letter, we directed USAC "to analyze the [Office of Inspector General's] audit results to determine what additional steps USAC should take to prevent or reduce potential improper payments." Besides requesting what "additional steps" USAC should take to address this issue, the Commission's letter directed USAC to "estimate what additional resources may be necessary to assist in preventing or reducing potential improper payments." We directed USAC to take these steps to assist the Commission to determine how to take additional measures to prevent and reduce potential improper payments in the Universal Service Fund (USF).

In its response to this direction, USAC provided its views of the Inspector General's audits conducted during the 2006-2007 and the Inspector General's initial analysis of the data from these audits. However, instead of proposing "additional steps USAC should take to prevent or reduce improper payments," USAC reported on past steps that have been taken to safeguard the USF. Instead of estimating "what additional resources may be necessary to assist in preventing or reducing potential improper payments," USAC generally indicated that it could expand education and outreach efforts to help promote the compliance of USF beneficiaries and contributors, but provided only a vague description of potential outreach efforts. USAC did not provide any detail about what additional resources would be needed to expand USAC's outreach efforts. Nor did USAC identify controls, procedures, or processes that it proposes to develop or improve to ensure higher levels of compliance with the Commission's directives by beneficiaries of, and contributors to, the Commission's USF program. Because of these deficiencies, USAC's report fails to provide sufficient information for the Commission to develop options for strengthening and safeguarding the USF from potential improper payments at this time.

We therefore require USAC to submit a follow-up report within 30 days from the date of this letter. In its follow-up report, USAC shall provide a specific list of proposed additional steps that USAC proposes to take to prevent or reduce potential improper payments and the additional resources needed to implement such measures with supporting documentation. These additional steps could include

additional oversight and managerial controls over the application process, strengthened audit or investigative techniques, or deploying improved information technology tools (*e.g.*, USAC's planned deployment of a new financial system) and more effective use of outreach resources. Commission staff will schedule periodic meetings with you during this 30-day period to provide any input or assistance that USAC may require during this process. Finally, to the extent USAC believes that neither additional protective steps nor additional resources are needed, USAC should state this position in its follow-up report.

Thank you for your prompt attention to this matter. Please feel free to contact me if you have any questions or wish to discuss this issue further.

Sincerely,



 Anthony J. Dale  
Managing Director

cc:

USAC Board of Directors  
Dana Shaffer  
Kent Nilsson