

FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554

June 9, 2008

OFFICE OF
MANAGING DIRECTOR

Mr. Brian Talbott
Chairman of the Board
Board of Directors
Universal Service Administrative Company
2000 L St. NW, Suite 200
Washington, DC 20036

Dear Mr. Talbott:

With this letter, we direct the Universal Service Administrative Company (“USAC”) to take steps to strengthen its internal control structure and to improve the efficiency and effectiveness of its operations as the Universal Service Fund (“USF”) Administrator. Specifically and as explained below, we require the USAC Board of Directors to establish a new committee charged with administering the compensation programs for USAC’s executives and corporate officers.¹ In addition, we require USAC’s Board of Directors to develop a plan to ensure executive compensation is based on performance.

The Commission’s rules establish a Board of Directors for USAC, including a composition consisting of separate committees to oversee the administration of the Schools and Libraries program, the Rural Health Care program, and the High Cost and Low Income Programs.² In addition, USAC has established other committees of the Board of Directors, including an Executive Committee, an Audit Committee, and an Investment Committee. These committees help the Board of Directors conduct its oversight of USAC’s administration and operations.

We require USAC’s Board of Directors to establish an Executive Compensation Committee. The Executive Compensation Committee should oversee the administration of USAC’s compensation program for its executives and corporate officers, including the award of performance-based bonuses. The Executive Compensation Committee should also oversee USAC’s compliance with the applicable rules and regulations governing the

¹ Pursuant to USAC’s By-Laws, the officers of USAC shall consist of: a Chief Executive Officer, a Secretary, a Treasurer, a Chairperson of the Board, a Vice-Chairperson of the Board, an Executive Vice-President, one or more other Vice-Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as the Board of Directors shall designate. *See* USAC By-Laws, Article III, Officers.

² *See* 54 C.F.R. § 54.703-.705.

compensation of USAC's executives, including the Commission's rules and orders.³ The Executive Compensation Committee should submit an annual report to the Commission concerning the performance and compensation of USAC's executives and corporate officers, with the first report due one year from the date of this letter.

We further require USAC's Board of Directors to develop a performance-based compensation plan ("Plan") for USAC's executives and corporate officers that ties compensation directly to USAC's performance as administrator of the USF. USAC should model the Plan on federal requirements for executive compensation that include establishing performance plans with concrete goals.⁴ In addition, USAC's Plan should contain four components. First, as a general matter, executive and corporate officer compensation should be based on audited performance and results in administering the USF. Second, USAC's executives and corporate officers should develop annual performance plans modeled on those required by the regulations of the Office of Personnel Management. Third, bonuses and awards for executives and officers should be based on quantifiable performance measures, including the customer service quality measures that USAC is required to monitor and report to the Commission and that are thoroughly audited to ensure their integrity and validity. Finally, executive and corporate officer compensation (including bonuses and awards) should be based on the results of USAC's efforts to strengthen its internal control structure and to reduce improper payments, as identified and reported by the Commission's Office of Inspector General in the conduct of the audits used to estimate potential improper payments under the Improper Payments Act of 2002.

USAC should submit a proposed Executive Compensation Plan to the Commission within 90 days from the date of this letter that addresses each of the attributes of that Plan that are discussed above. The proposed plan will include names and titles of the subject executives and corporate officers, metrics each executive's and officer's compensation will be tied to, and how the executive's and officer's

³ See e.g., Changes to the Board of Directors of the National Exchange Carrier Association, *Third Report and Order in CC Docket No. 97-21, Fourth Order on Reconsideration in CC Docket No. 97-21, and Eighth Order on Reconsideration in CC Docket No. 96-45*, 13 FCC Rcd 25,058 (1998).

⁴ See 5 C.F.R. § 430.404(a)(3) (stating that part of an agency's pay for performance system requires "[r]esults, so that the performance expectations for individual senior employees apply to their respective areas of responsibility; reflect expected agency and/or organizational outcomes and outputs, performance targets or metrics, policy/program objective, and/or milestones; identity specific programmatic crosscutting, external, and partnership-oriented goals or objectives, as applicable; and are stated in terms of observable, measurable, and/or demonstrable performance.") See also 5 C.F.R. § 430.404(a)(9) (stating that part of an agency's pay for performance system requires "[p]ay differentiation, so that those senior employees who have demonstrated the highest levels of individual performance and/or contribution to the agency's performance receive the highest annual summary ratings or ratings of record, as applicable, as well as the largest corresponding pay adjustments, cash awards, and levels of pay, particularly those above the rate of level III of the Executive Schedule. Agencies must provide for transparency in the processes for making pay decisions, while assuring confidentiality.")

compensation will be affected by positive performance and negative performance. The Commission will review the Plan and make any necessary modifications. USAC should adopt the Plan (after Commission approval) no later than January 1, 2009.

If you have any questions, please do not hesitate to call me at (202) 418-2260.

Sincerely,



 Anthony J. Dale
Managing Director

cc: USAC Board
Kent Nilsson, Inspector General
Dana R. Shaffer, Chief Wireline Competition Bureau
Mark Stone, Deputy Managing Director
Mindy Ginsburg, Deputy Managing Director
Mark Stephens, Chief Financial Officer