



Federal Communications Commission
Washington, D.C. 20554

September 8, 2008

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

RE: Requesting Corrective Action Plans for the 2007 Part 54 Agreed Upon Procedures (AUP) Exceptions

Dear Mr. Barash:

This letter addresses the results of the Agreed Upon Procedures (AUP) engagement performed by the independent auditors, PriceWaterhouseCoopers LLP, of the Universal Service Administrative Company's (USAC) operations for the year ending December 31, 2007 as required by section 54.717 of Title 47 of the Code of Federal Regulations. The Federal Communications Commission (Commission) has received the results of this engagement and is looking forward to coordinating with USAC the corrective actions necessary to mitigate the exceptions as noted by your auditors. The auditors noted several exceptions during this engagement and they are attached to this letter.

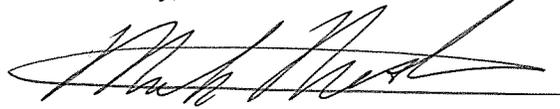
As discussed previously with USAC, audit follow up and corrective action for audit recommendations is an integral part of good management. Corrective action is essential to improving the effectiveness and efficiency of operations. The Commission's current Memorandum of Understanding (MOU) with USAC provides that USAC will promptly take steps to implement all recommendations arising from Universal Service Fund (USF) related audits such as the AUP engagement required by section 54.717 of the Commission's rules.¹ Furthermore, the MOU states that USAC shall have an action plan to address all findings from such engagements, and that USAC shall submit those plans to the Commission's Office of the Managing Director (OMD).² As such, USAC should provide OMD with corrective action plans addressing each of the exceptions in the independent auditors' report within 30 days of receipt of this letter. The corrective action plans should state the specific actions that USAC will take to implement each noted exception, the operating unit and staff person within USAC that will be responsible for implementing the corrective action, and an estimated date for completing implementation of the corrective action. USAC should focus its efforts on both mitigating the impact of and correcting the exceptions identified in the independent auditors' report as those exceptions by definition present the greatest operational risk to USAC and the USF.

¹ Memorandum of Understanding between FCC and USAC, 2007, Section IV.F.2.

² *Id.*

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,

A handwritten signature in black ink, appearing to read 'Mark Stephens', written over a horizontal line.

Mark Stephens
Chief Financial Officer

cc: Dana Shaffer, Chief, Wireline Competition Bureau
Kent Nilsson, Inspector General

Attachment

Attachment on Part 54 AUP Audit Issues

	Procedure	Description of Finding
1	2.2f pg 8	Recovered amounts per data files did not agree to General Ledger for several E-Rate applicants.
2	7.1a pg 21	Formal desk procedures have not been officially written as the estimated revenue contribution is processed by the computer system.
3	7.1b pg 21	There was no call log correspondence or notification letter from USAC for certain sampled Form 499 non-responders.
4	7.8 pg 23	Five contributors in the sample did not provide USAC with documentation for the decrease in contributions.
5	7.13b pg 24	We found differences in the actual allocation of the payment to an allocation using the applicable ratios in USAC's contributions allocations methodology.
6	8.1 xii pg 25	We determined that the USAC COOP, DRP, and BCP do not contain a plan for testing recovery and continuity if a vendor should experience its own interruptions.
7	8.1a pg 26	USAC's vendor (Solix) does not have a formalized plan for testing recovery and continuity if a vendor should experience its own interruptions.
8	8.1a pg 27	USAC's vendor (Telcordia) has five key deficiencies in its current processes for COOP, DR, and BCP.
9	8.1a pg 27	USAC's vendor (Vangent) has not formalized a plan for testing recovery and continuity if a vendor should experience its own interruptions.
10	8.5 pg 30	The USAC vendor (ServerVault) data center is lacking system controls in five different areas.
11	8.5 pg 31	The USAC vendor (Solix) IT system settings were not enforced in three different areas.
12	8.5 pg 32	The USAC vendor (Solix) did not disable terminated employees access to its IT systems in five different areas.
13	8.5 pg 33	The USAC vendor (Vangent) did not disable terminated employees access to its IT systems in two different areas.
14	8.5 pg 34	The USAC vendor (Telcordia) failed to enforce IT settings in three different areas.
15	8.5 pg 34	The USAC vendor (Telcordia) lacks documentation over access controls in the High Cost and Low Income IT systems.
16	8.8 pg 35	The USAC disaster recovery plan was not tested in 2007.
17	8.8 pg 36	The USAC vendor (Solix) has no written policies and procedures over the backup of critical resources.
18	8.8 pg 36	The USAC vendor (Telcordia) is lacking specificity in key areas of written policies and procedures concerning backup of critical resources.
19	16.6 pg 55	The USAC vendor (Solix) recorded the incorrect denial code in several sampled items.
20	17.2 pg 58	USAC procedures over service substitutions in its E-rate program resulted in an error during AUP testing.