



Federal Communications Commission
Washington, D.C. 20554

October 14, 2008

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

RE: Fiscal Year 2008 IT Audit Findings

Dear Mr. Barash:

This letter addresses the preliminary results of the annual Financial Statement Audit related to the Federal Information Security Management Act (FISMA) and the Federal Information System Controls Audit Manual (FISCAM) evaluation. An independent auditor, Clifton Gunderson LLP, working under the direction of the Commission's Office of Inspector General, has evaluated the Universal Service Administrative Company's (USAC) compliance with FISMA and FISCAM during the fiscal year ending September 30, 2008. The independent auditor has noted five preliminary findings. Four findings relate to one of USAC's vendors and one finding relates directly related to USAC: 1) the vendor does not have a documented Security Awareness Program and Training procedures; 2) the vendor has not tested its Business Continuity Plans nor the recoverability of critical data [in case of an interruption in operations] for more than a year since the last test was performed; 3) the vendor's Windows Operating Active Directory password controls do not comply with USAC or FCC password policies; 4) the vendor has not enabled the Microsoft Windows Active Directory to record system and user activities; and 5) USAC did not perform Disaster Recovery tests of all its major applications and computer information systems used in support of FCC.

These preliminary findings appear to indicate USAC's failure to comply fully with the Commission-USAC Memorandum of Understanding ("MOU"). The MOU requires that USAC "will comply to the fullest extent possible as a non-federal entity with federal and Commission information technology requirements on an on-going basis including, but not limited to, those pertaining to capital planning, computer and information security, communications and privacy."¹ Furthermore, OMB and Treasury have issued guidance on policies and activities surrounding financial management systems. These policies and activities help to ensure that financial management systems are free from vulnerabilities such as fraud, waste, abuse, mismanagement or misappropriation.² It is imperative that USAC and those vendors USAC has employed to support the information technology (IT) function follow this guidance. The MOU has been in effect for all of fiscal year 2008.

The Commission takes non-compliance of federal IT requirements and the MOU seriously. Moreover, the MOU requires USAC to promptly take steps to implement all recommendations arising

¹ MOU at § IV.E.1 (dated 6/5/07) and MOU at § IV.G.1 (dated 9/10/08).

² OMB Circular A-123, Internal Control Systems, OMB A-127, Transmittal Memorandum No. 3, Financial Management Systems, OMB Circular A-130, Management of Federal Information Resources, OMB M-08-21, Reporting Instructions for Federal Information Security Act and Agency Privacy Management, and National Institute of Standards and Technology (NIST 800-53 Rev 2)

from all USF-related audits.³ Corrective action is essential to improving the effectiveness and efficiency of operations and helps to deter fraud, waste, and abuse. Consistent with these requirements, USAC should provide the Commission with corrective action plans addressing each of the five findings above within 30 days of receipt of this letter. The corrective action plans should state the specific actions that USAC will take to correct each noted finding, 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 include in its submission corrective action plans for any additional audit findings not mentioned above.

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,


for Anthony J. Dale
Managing Director

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

³ MOU at § IV.D.2 (dated 6/5/07) and MOU at § IV.F.2 (dated 9/10/08).