



Federal Communications Commission
Washington, D.C. 20554

December 16, 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 Audit Findings

Dear Mr. Barash:

This letter addresses certain of the findings of the annual Financial Statement Audit. In preparing the Commission's annual Financial Statement Audit, the independent auditor, Clifton Gunderson LLP, working under the direction of the Commission's Office of Inspector General identified a number of significant deficiencies in the accounting of the Universal Service Fund (USF). The independent auditor has identified three significant deficiencies that relate to the Universal Service Administrative Company's (USAC) administration of the Universal Service Fund. The first such deficiency is that financial systems do not support financial management or facilitate the timely preparation of accurate financial statements. The second deficiency that the independent auditor has noted is the lack of automated integration of the trial balances of the USF and other component entities of the Commission. Finally, the auditor noted a significant deficiency regarding the methodology used to estimate the allowance for loss on accounts receivable by the USF.

The Commission-USAC Memorandum of Understanding ("MOU") requires USAC to administer the USF consistent with all applicable government and Commission accounting requirements.¹ The MOU further requires USAC to promptly take steps to implement all recommendations arising from all USF-related audits.² 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 three significant deficiencies identified 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.

¹ MOU at § III.A. (dated 6/5/07) and MOU at § III.A. (dated 9/10/08).

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

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

Copies to: USAC Board of Directors
Dana Shaffer, Chief Wireline Competition Bureau
Kent Nilsson, Inspector General