



Federal Communications Commission
Washington, D.C. 20554

October 13, 2010

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

RE: Independent CPA Firm and USAC's Procedures for Follow-up on Audit Findings and Recommendations in USF Program Engagements

Dear Mr. Barash:

As you are aware, the Commission has provided USAC guidance on the appropriate processes for performance, oversight, and follow-up of USF audits. This letter restates prior guidance and sets forth in detail the steps that the Universal Service Administrative Company (USAC) should take when performing audits, overseeing audits performed by independent auditors, and resolving audit findings and recommendations regarding the Universal Service Fund (USF). The Commission expects USAC to follow this and all previously issued guidance on these issues as outlined below and in numerous correspondences from the Commission to USAC.¹ If USAC is unable to follow this or any previously issued guidance in regard to these matters, it must notify and seek Commission approval immediately and propose, for Commission review and approval, a reasonable alternative to remedy the issue(s).

The completion of the audit process and audit follow-up process is an integral part of good management, and is a shared responsibility of the independent auditors, auditees and USAC. Corrective action on resolved audit findings and recommendations is essential to making improvements to the USF program. Since Fiscal Year 2003 the Commission has issued guidance on the completion of the audit process, the audit resolution process the audit follow-up process, and the process to correct audit findings. Some of this guidance has come in the form of Commission internal guidance to USAC and other guidance has come from external sources (i.e., the Office of Management and Budget and the Government Accountability Office). In order to improve the effectiveness and efficiency of the USF it is essential for USAC to continue to follow the FCC guidance on these matters. USAC, either in its role as an internal auditor or in its role overseeing the performance of an audit by an independent auditor, should ensure that the steps listed below are followed. It is understood that numerous past audits followed a faster track than normal due to the goal of reporting an error rate for the USF program in the Commission's annual Performance and Accountability Report in accordance with IPFA guidance. We now recognize that this caused numerous withdrawals and/or disclaimers of opinion by the independent auditors working under the oversight of USAC because the auditors did not have the time, proper documentation, or ability to clearly communicate with the auditees to complete the audits in a timely manner and report an accurate error rate. In addition, these issues resulted in USAC performing many follow-up procedures in the High

¹ FCC 03-232 (GOVGAAP Order); Memorandum of Understanding between the FCC and USAC, effective June 2007 (September 9, 2008); April 17, 2006 letter from Anthony Dale, Managing Director to Scott Barash, USAC, Acting CFO, October 31, 2007 letter from Anthony Dale, Managing Director to Scott Barash, USAC, Acting CFO, January 30, 2008 letter from Anthony Dale, Managing Director to Scott Barash, USAC, Acting CFO, January 29, 2009 letter from Kent Nilsson, Inspector General to Scott Barash, USAC, Acting CFO.

Cost and Schools and Libraries programs to devise a more accurate error rate for the these programs. Going forward, the Commission will work with USAC more closely and USAC should ensure that the following are incorporated into USAC's written audit policies, procedures, and procurements:

- The auditor must adequately plan the work and must properly supervise any assistants. Government Auditing Standards (GAO "Yellow Book"), July 2007 Revision, Section 6.04(a);
- The auditor must obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the report. Government Auditing Standards (GAO "Yellow Book"), July 2007 Revision, Section 6.04(b);
- If the engagement report discloses internal control deficiencies, fraud, illegal acts, violations of provisions of contracts or grant agreements, or other form(s) of abuse, the auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions. Government Auditing Standards (GAO "Yellow Book"), July 2007 Revision, Section 6.44;
- The auditors should provide a draft report with findings for review and comment by responsible officials of the audited entity and others in order to help the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials is more likely to result in a more balanced report that presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable, so long as such comments are reduced to writing and confirmed by the commenter(s). Government Auditing Standards (GAO "Yellow Book"), July 2007 Revision, Section 6.45;
- When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments or a verified summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated. Government Auditing Standards (GAO "Yellow Book"), July 2007 Revision, Section 6.46
- Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user's needs; auditors have worked closely with the responsible officials throughout the conduct of the work and the parties are familiar with the findings and issues addressed in the draft report; and the auditors do not expect major disagreements with the findings, conclusions, and recommendations in the draft report, or major controversies with regard to the issues discussed in the draft report. Government Auditing Standards (GAO "Yellow Book"), July 2007 Revision, Section 6.48;
- When the entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report the reasons for such disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence. Government Auditing Standards (GAO "Yellow Book"), July 2007 Revision, Section 6.49;

- If the entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments. Government Auditing Standards (GAO “Yellow Book”), July 2007 Revision, Section 6.50; and,
- Implement a systematic approach to assess the internal controls that appropriately considers the results of beneficiary audits and that is supported by a documented and approved set of policies and procedures.

When seeking recovery of funds, USAC should ensure it recovers the amount of funds recommended by the OIG, independent auditors, or by USAC’s internal auditors in accordance with the final audit report. USAC should conduct all such recovery actions in a manner consistent with the Commission’s rules.² Additionally, USAC should establish goals and performance measures to track the timeliness of the completion of audits from the date fieldwork is completed until the date that the USAC Board approves the audit report. USAC should develop any other goals and measures to ensure that a timely audit process, timely audit resolution, and timely audit corrective action process occur. USAC should work with the Commission to develop these goals and measures, and to ensure that such goals and measures are implemented within 60 days of the issuance of this letter.

We recognize and appreciate USAC’s efforts in this area to date. Implementation of the processes outlined above is critical to reaching our common goal of further reducing and eliminating improper payments in the USF program. Thank you for your attention to these matters. If you have any questions or wish to discuss these issues further, please do not hesitate to contact me.

Sincerely,



Dana R. Shaffer
Deputy Managing Director

Cc: Steven VanRoekel
Mark Stephens
Richard Belden
Wayne Scott

² January 30, 2008 letter from Anthony Dale, Managing Director to Scott Barash.