



Federal Communications Commission
Washington, D.C. 20554

December 21, 2010

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

Dear Mr. Barash,

With this letter, we direct the Universal Service Administrative Company (USAC) to take steps to implement the recommendations in the September 2010 U.S. Government Accountability Office Report, entitled, "Telecommunications: FCC Should Assess the Design of the E-rate Program's Internal Control Structure."¹ We specifically direct USAC to take the steps described below to identify risks, strengthen internal controls, and improve the efficiency and effectiveness of administration for the E-rate program.

In its report, the GAO offers four recommendations to improve the E-rate program. First, the GAO recommends that the Commission conduct a robust risk assessment of the E-rate program that is based on the program's core practices and business practices.² Next, the GAO recommends that the FCC, based on the findings of the risk assessment, conduct a thorough examination of the overall design of E-rate's internal control structure to ensure the procedures and administrative resources related to internal controls are aligned to provide reasonable assurance that program risks are appropriately targeted and addressed.³ Third, the GAO recommends the FCC implement a systematic approach to assess internal controls that appropriately considers the results of beneficiary audits and that is supported by a documented and approved set of policies and procedures.⁴ Finally, the GAO recommends policies and procedures be developed to monitor the internal control structure of the E-rate program, including evaluating the costs and benefits of internal controls, to provide continued reasonable assurance that program risks are targeted and addressed.⁵

We recognize and appreciate USAC's efforts to date to improve the E-rate program's internal control structures through assessing risk in the program related to financial reporting and fraud. In addition to these efforts, as GAO recognized in its first two recommendations, the E-rate program's internal controls could be further improved by conducting a robust risk assessment accompanied by a subsequent examination of the overall design of the E-rate's internal control structure. Accordingly, we direct USAC to conduct a robust risk assessment designed to provide a critical examination of the entire E-rate program to determine if modifications to business practices and internal controls are necessary to cost-effectively address programmatic risks.⁶ As recommended in the GAO Report, this robust risk assessment is to be conducted under the procedures set forth in the November 1999 GAO Report entitled, *Internal Control in*

¹ Government Accountability Office, *FCC Should Assess the Design of the E-rate Program's Internal Control Structure* at 31 (Sept. 2010) (GAO Report).

² GAO Report at 31.

³ *See id.*

⁴ *See id.*

⁵ *See id.*

⁶ Office of Management and Budget, *Management's Responsibility for Internal Control*, Circular No. A-123 (Dec. 21, 2004).

Federal Government Report,⁷ which establishes, among other things, three steps to conducting an effective risk assessment:

- Objectives - establishing clear, consistent agency objectives as a precondition to effective risk assessment;
- Identification of Risks - identifying relevant risks associated with achieving the objectives; and
- Analysis – analyzing those risks for their possible effect and remediation.

Two well established goals of the E-Rate program are to: (1) ensure eligible schools and libraries have affordable access to modern telecommunications and information services that would enable them to provide educational services to all parts of the nation;⁸ and (2) protect the fund against waste, fraud, and abuse.⁹ Consistent with GAO's guidelines and recommendations in the above-referenced report, the risk assessment conducted by USAC shall examine the effectiveness and efficiency of its operations by identifying risks associated with the above two programmatic objectives. Specifically, we instruct USAC to examine, through an independent and objective consultant, and working with FCC staff, the following areas to identify potential risks to achievement of the above two program goals:

- application, invoicing, and other program procedures;¹⁰
- training provided to USAC's employees and its subcontractors designed to ensure they are providing the correct information when information is sought by applicants and service providers;
- information and communication flow between USAC employees (and its subcontractors) and applicants and service providers;
- USAC organizational structure and organizational culture; policies, procedures, and mechanisms; and internal information and communication flow.

The risk assessment should take into account the top five types of findings from the last five rounds of previous E-rate audits and their impact on achievement of program objectives. The risk assessment also should set forth a framework and methodology that USAC can utilize in conducting future risk assessments.

Prior to initiation of the risk assessment, we direct USAC, within three months of the date of this letter, to create a single document or procedures manual to clarify the existing invoice process. This document will not only clarify the invoice review process, but it will provide a comprehensive guide for purposes of conducting a risk assessment of invoicing practices. After completing the risk assessment, USAC, subject to FCC oversight and approval, shall examine the overall design of the E-rate's internal control structure and recommend modifications to business practices and internal controls that are necessary to cost-effectively address programmatic risks.

⁷ GAO Report at 19 (citing *Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Nov. 1999) (available at, <http://www.gao.gov/archive/2000/ai00021p.pdf>)).

⁸ See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9002, para. 424 (1997); Letter from Michael J. Copps, Acting Chairman, FCC, to Mark Goldstein, GAO, at 2 (Mar. 10, 2009).

⁹ See *Requests for Review of Decisions of the Universal Service Administrator by Academy of Excellence, Phoenix, AZ, et. al.*, CC Docket 02-6, Order, 22 FCC Rcd. 8722, 8726. para. 7 (2007); *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Third Report and Order and Second Further Notice of Proposed Rulemaking, 18 FCC Rcd. 26912, para. 1 (2003); *In the Matter of Request for Review of the Decision of the Universal Service Administrator by Ysleta Independent School District, El Paso, TX, et. al.*, CC Docket No. 96-45, Order, 18 FCC Rcd. 26407, 26408, para. 2 (2003).

¹⁰ GAO Report at 18-25.

We also recognize that Solix, Inc. (Solix), which provides operational support services (OSS), such as form and invoice processing to USAC for E-rate program administration, is working under a one-year option extension that expires on June 30, 2011.¹¹ As the OSS vendor procurement proceeds, we direct USAC to include evaluation criteria to consider how a vendor will use resources efficiently to protect against risks associated with program objectives by ensuring compliance with program rules. In particular, bids should demonstrate how measures will be implemented to adequately target risks in order to provide an efficient and effective application process and an accurate invoice reimbursement process.¹²

GAO also recommends the FCC implement a systematic approach to assess internal controls that appropriately considers the results of beneficiary audits and that is supported by a documented and approved set of policies and procedures.¹³ We note this process is already under way per the October 13, 2010 letter (*October 2010 Audit Letter*) from the Commission providing additional guidance on how USAC should undertake and resolve audits.¹⁴ We emphasize that the policies and procedures must reconcile any inconsistencies between activities in practice versus written policies concerning the audit process.¹⁵ In addition, consistent with GAO's recommendation, the *October 2010 Audit Letter* instructs USAC to establish goals and performance measures to track the timeliness of the completions of audits from the date fieldwork is completed until the date that the USAC Board approves the audit report.¹⁶

Consistent with GAO's fourth recommendation, within three months from the date of this letter, we direct USAC to propose policies and procedures to periodically monitor the internal control structure of the E-rate program to provide continued reasonable assurance that program risks are targeted and addressed.¹⁷ These policies and procedures shall be subject to FCC review and approval before adoption.

We recognize and appreciate USAC's efforts to date concerning the E-rate internal controls structure. As GAO recommends, implementation of the risk assessment and processes outlined above are critical in further improving the E-rate program's internal control structure. If you have any questions or wish to discuss these issues further, please do not hesitate to contact me.

Sincerely,



Steven VanRoekel
Managing Director

Cc: Sharon Gillett
Mark Stephens
Dana Shaffer

¹¹ We note that failure to properly compete this contract for OSS before the expiration of the current extension with Solix is, in and of itself, a risk that must be addressed. We will be asking USAC to address this risk and providing further guidance on this matter in a separate letter.

¹² See 48 C.F.R. §3.101-1.

¹³ GAO Report at 25-30.

¹⁴ See Letter from Dana R. Shaffer, FCC, to Scott Barash, USAC, at 3 (Oct. 13, 2010) (available at <http://www.fcc.gov/omd/usac-letters/2010/101310CPA-USAC.pdf>)

¹⁵ GAO Report at 54.

¹⁶ See *id.*

¹⁷ GAO Report at 31.