

Management’s Discussion & Analysis

MISSION AND STRUCTURE

The Universal Service Administrative Company (USAC) is an independent, not-for-profit corporation that was created in 1997 to administer universal service support mechanisms (programs) and the universal service fund (USF). USAC’s mission is to collect FCC-mandated contributions from telecommunications carriers and distribute these funds across the four universal service support mechanisms – High Cost, Low Income, Rural Health Care, and Schools and Libraries — in accordance with Federal Communications

Commission (FCC) rules. USAC does not set or advocate policy. USAC works to protect the integrity of the fund, promote compliance among program participants, and provide information about universal service to Congress, the FCC, program audiences, and the general public. In all these tasks, USAC strives to provide efficient, responsible stewardship of the programs and the USF, a key national asset in making important telecommunications services available to consumers, health care providers, schools, and libraries throughout the United States.

FCC regulations governing USAC are found in Part 54 of Title 47 of the Code of Federal Regulations (47 C.F.R. Part 54). These regulations required USAC to establish three program divisions: High Cost and Low Income, Rural Health Care, and Schools and Libraries. The program divisions are supported by additional USAC personnel in External Relations, Finance, General Counsel, Human Resources and Operations, Information Systems, and Internal Audit.

PERFORMANCE MEASURES

USAC is required to report quarterly to the FCC on performance measures. This information pertains to USAC’s administration of the USF and the four programs. Below is a selection of performance measures for 2010.

FUND ADMINISTRATION	1ST QTR	2ND QTR	3RD QTR	4TH QTR
USF CONTRIBUTOR STATISTICS				
Number of USF contributors	2,941	2,963	2,958	2,949
Number of delinquent contributors	1,464	1,459	1,468	1,471
Contributors assessed late fees or penalties	1,171	1,150	1,634	1,355
AVERAGE TIME TO PROCESS PAYMENTS (DAYS)				
High Cost	2	3	2	4
Low Income	29	29	29	29
Rural Health Care (Funding Year 2009)	13	14	13	12
Schools and Libraries (Funding Year 2009)	5	5	6	7
USAC COMPLAINT STATISTICS				
Complaints about USAC	33	26	24	14
Average number of business days to resolve complaints	1.2	1.0	1.0	0.9

HIGH COST PROGRAM	1ST QTR	2ND QTR	3RD QTR	4TH QTR
Total supported lines	127,713,764	127,798,060	124,935,788	128,320,387
Average support dollars/line	\$9.56	\$9.55	\$9.98	\$9.91
Median support dollars/line	\$1.40	\$1.53	\$1.63	\$1.68
LOW INCOME PROGRAM	1ST QTR	2ND QTR	3RD QTR	4TH QTR
Median dollars disbursed per ETC	\$938	\$1,024	\$1,001	\$974
RURAL HEALTH CARE PROGRAM	1ST QTR	2ND QTR	3RD QTR	4TH QTR
APPLICATION TYPES (ALL NUMBERS CUMULATIVE FOR FUNDING YEAR)				
Funding Year 2010				
Telecom	n/a	206	1,233	2,268
Internet	n/a	49	354	705
Funding Year 2009				
Telecom	2,744	5,678	5,721	5,733
Internet	1,009	1,944	1,954	1,959
APPLICATION OUTCOMES (ALL NUMBERS CUMULATIVE FOR FUNDING YEAR)				
Funding Year 2010				
Received	n/a	255	1,587	2,973
Granted	n/a	n/a	0	1,217
Funding Year 2009				
Received	3,753	7,622	7,675	7,692
Granted	2,606	4,515	6,383	6,929
INVOICES FUNDING YEAR 2009 (ALL NUMBERS CUMULATIVE FOR FUNDING YEAR)				
Invoices received	259	799	1,357	1,647
Invoiced paid	184	658	1,272	1,589
APPEALS				
Current appeals (new appeals received in each quarter)	10	7	10	17
Average calendar days to resolve appeals	115	117	125	111

SCHOOLS AND LIBRARIES PROGRAM	1ST QTR	2ND QTR	3RD QTR	4TH QTR
APPLICATION OUTCOMES (ALL NUMBERS CUMULATIVE FOR FUNDING YEAR)				
Funding Year 2010				
Submitted	43,805	43,838	43,858	43,866
Granted	n/a	22,812	30,312	34,810
Funding Year 2009				
Submitted	41,025	41,027	41,033	41,035
Granted	35,752	36,222	36,422	36,517
INVOICES FUNDING YEAR 2009 (ALL NUMBERS CUMULATIVE FOR FUNDING YEAR)				
Invoices received	172,096	298,393	410,988	475,476
Invoiced paid	144,454	250,322	354,559	412,037
APPEALS				
Current appeals (new appeals received in each quarter)	287	549	488	635
Average calendar days to resolve appeals	44	83	102	78

SYSTEMS, CONTROLS, AND COMPLIANCE

In 2008, USAC implemented a formalized internal control structure and review process consistent with the guidance in Office of Management and Budget (OMB) Circular A-123 titled "Management's Responsibility for Internal Control," including Appendix A (Implementation Plans). In 2010, this group continued to enhance USAC's overall internal control framework with their testing program as well as managing the effort to move all of USAC's policies and procedures into a new framework. No material weaknesses were identified during either the 2009 or the 2010 internal control assessments.

USAC contracts with an independent audit firm to perform an annual audit of its financial statements as well as agreed-upon procedures in compliance with the requirements in 47 C.F.R. Part 54. The FCC's auditors also audit the USF books and records as part of the annual FCC financial audit.

USAC's current financial management system is a widely used and commercially accepted accounting system. However, as universal service program administrator, USAC is required by the FCC to comply with applicable laws and regulations. The 2010 audit of the FCC's financial statements identified a non-compliance with the Federal Managers

Financial Integrity Act of 1982. The non-compliance noted was that the financial systems of the FCC's reporting components (e.g., USAC as the universal service administrator) do not achieve the federal financial system integration standards as determined by OMB. Although USAC's financial systems are not currently compliant with OMB standards, USAC has compensating controls in place to ensure all financial data is accurate and meets the requirements of the FCC. USAC is actively working with the FCC to finalize a request for proposals to obtain and implement a fully compliant financial management system.