EX PARTE COMMUNICATION

May 30, 2017

The Honorable Michael O'Rielly
Commissioner, Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Universal Service Administrative Company; Connect America Fund

Dear Commissioner O'Rielly:

We write to follow up on our previous communications, both in person and via correspondence. If you'll recall, I am a member of the Executive Committee of the Small Company Coalition (SCC), a consortium of small, rural telecom providers and associated vendors from across the country.

The SCC was formed with the specific intent of working collaboratively with the FCC on issues impacting our ability to provide advanced telecommunications services to Americans in small and remote communities throughout the country. We know that you share our view that such access is vital to almost 50 million Americans.

In April, we met with Chairman Pai to discuss issues of importance to our businesses and communities, including regulatory streamlining and USAC auditing. We know you share Chairman Pai's commitment to ensuring that regulations protect American taxpayers, but do so effectively and efficiently, and in a manner that does not unnecessarily impair the ability of entities like the SCC member companies to function and survive. We are grateful for your leadership in this area.

In this vein, we took particular note of your May 4, 2017 statement regarding the resignation of Universal Service Administrative Company (USAC) CEO Chris Henderson. The SCC agrees that this could serve as an inflection point for USAC, presenting a prime opportunity to review USAC's operations to—in your words—"clean up its act."

As it so happens, at the time of Mr. Henderson's resignation, the SCC was in the midst of investigating what we believe to be possible problems in USAC's administration of the USF program. Our review of USAC's financial statements and Universal Service Fund contribution processes revealed that the Commission and other stakeholders would be well-served by a fresh, detailed review in a formal setting.

Though the SCC is a small group, SCC member companies live in the communities we serve, and take our responsibilities to these communities very seriously. Consequently, we expended substantial time and effort in conducting our own review of particular aspects of USAC's administration of the federal universal service programs, including, *inter alia*: 1) carryover of unexpended USF monies, now constituting a substantial reserve; and 2) audit expenditures, findings of malfeasance, and associated recoveries.

Based on our analysis, we have identified several areas of concern, including:

1) Reserve fund carryover
   - Significant funds are collected each year from service providers, yet not disbursed. According to USAC's own reports, this reserve now exceeds $8 billion in the form of Assets Held for the USF and CAF Reserves (now the High Cost Account).

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- We believe that this overage could be put to better use by increasing payments to providers, and/or in reduced collections from end-user/customers.

2) Size of USF shortfall
   - Estimates of the annual shortfall in the USF program vary, but generally fall within the $200-$400 million range.

   - The SCC's careful analysis places this annual shortfall startlingly closer to $1.5 billion per annum.

3) Unfocused and wasteful audits
   - According to their own numbers, the FCC and USAC have spent close to $250 million on the first three rounds of USAC audits of the High Cost Program alone, but in fiscal year 2016, recovered only $8 million.

   - Such a startlingly low recovery rate clearly demonstrates that USAC should dramatically revise their audit targeting, utilizing—at a minimum—the materiality threshold in accordance with generally accepted auditing standards.

Within the next two weeks, the SCC will be releasing a white paper elucidating these findings in greater detail. We would very much appreciate an opportunity to sit down with you at that time to discuss our findings, with an eye toward further enhancing the FCC's role as a responsible and accountable regulator.

In addition, Chairman Pai expressed interest in visiting our operations in Southwestern Pennsylvania. We would like to extend this same invitation to you. We're only a short distance from Washington, D.C., and the visit would be illuminating with respect to how small rural telecoms operate, and the unique challenges we face in providing quality services to remote communities.

As always, we very much appreciate your time and consideration. We will follow up with your office shortly to arrange a meeting in D.C.

Sincerely,

James J. Kail
Executive Committee Member

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