



Federal Communications Commission  
Washington, D.C. 20554

October 30, 2008

Bill Hegmann  
President and Chief Executive Officer  
National Exchange Carrier Association  
80 South Jefferson Road  
Whippany, NJ 07981-1009

Dear Mr. Hegmann:

This letter addresses measures to safeguard the Telecommunications Relay Service (TRS) Fund. Specifically, the Office of Managing Director (OMD) of the Federal Communications Commission (Commission) directs the National Exchange Carrier Association (NECA) to take specific steps to strengthen its internal control structure over its finance and accounting operations, to enhance the transparency of its operations, and to improve the efficiency and effectiveness of its operations as the TRS Fund Administrator. We expect that these steps will help strengthen the integrity of the TRS Fund and combat potential waste, fraud and abuse in the TRS Fund so that the Commission and program stakeholders can be assured that TRS Fund monies are being used in an efficient, effective manner.

First, as the administrator of the TRS Fund, NECA should implement effective internal controls over its operations, including the administration of the TRS Fund and compliance with applicable laws and regulations. In particular, NECA should implement an internal control structure consistent with the standards and guidance contained in Office of Management and Budget (OMB) Circular A-123, including the methodology for assessing, documenting, and reporting on internal controls specified in Appendix A of OMB Circular A-123. This appendix requires, among other things, establishing a "Senior Management Council" charged with regularly assessing internal controls in order to maintain or improve strengths and correct weaknesses. Implementing internal controls consistent with OMB Circular A-123 will help ensure that, in administering the TRS Fund, NECA will comply with all relevant and applicable federal financial management and reporting statutes, as required by Section 64.604(c)(5)(iii)(H) of the Commission's rules. NECA should submit, within 30 days of the date of this letter, a plan for implementing the enhanced internal control structure required by OMB Circular A-123.

Second, Section 64.604(c)(5)(iii)(E) of the Commission's rules requires NECA to "establish procedures to verify payment claims." NECA should develop written policies and procedures governing its activities and functions as the current Fund administrator, including procedures to review and verify the minutes of use submitted by each provider for payment each month. The policies and procedures should ensure that NECA reviews and verifies, on a monthly basis, all call data submitted each month by each provider, including all available calling and called numbers, to ensure that the minutes submitted are legitimate and that the correct amount of funds are disbursed, and to detect call patterns that suggest fraud. NECA should ensure that providers do not submit improper costs or improper minutes for the annual rate setting process. NECA should also ensure that providers do not submit improper minutes

for monthly payments. These written policies and procedures should include appropriate procedures to follow-up on findings and recommendations of the Inspector General and other auditors. NECA should also establish formal anti-fraud policies and procedures that identify proactive measures that NECA is taking to combat potential waste, fraud, and abuse in the TRS program. NECA should submit its policies and procedures within 30 days of the date of this letter. In addition, NECA should submit within 30 days of the date of this letter a proposed list of additional written policies and procedures that it will implement (along with a proposed implementation timeline) to better safeguard the monies of the TRS Fund. On a going-forward basis, NECA should coordinate, and secure approval of, any proposed change to its policies or procedures with the Commission before making such changes.

Third, with respect to the annual submission of cost and demand data used to determine the compensation rates and Fund size, NECA should establish written policies and procedures to frequently review the submissions of TRS providers seeking compensation from the TRS Fund. Section 64.604(c)(5) of the Commission's rules states that "TRS providers shall provide the administrator with true and adequate data necessary to determine TRS fund revenue requirements and payments." The Commission's rules also require TRS providers to provide NECA with total TRS minutes of use, total interstate TRS minutes of use, total TRS operating expenses and total TRS investment in general accordance with Part 32 of the Commission's rules. Section 64.604(c)(5) also requires TRS providers to provide "other historical or projected information reasonably requested by the administrator for purposes of computing payments and revenue requirements. Finally, Section 64.604(c)(5) authorizes NECA "to examine, verify and audit data received from TRS providers as necessary to assure the accuracy and integrity of fund payments." Consistent with this authority, NECA should verify the accuracy of the data submitted by the providers to ensure that, with respect to projected costs, the costs are reasonable and recoverable under the guidelines set forth in the Commission's rules and orders. NECA should review the providers' submitted overhead costs to ensure that such costs are properly allocated. NECA's review should include TRS traffic involving contractors or subcontractors of TRS providers.

Fourth, NECA should submit a report within 10 days of the end of each month to OMD, the Inspector General, and the Consumer and Governmental Affairs Bureau (CGB) that includes program data (*e.g.*, total TRS minutes of use, total interstate TRS minutes of use, total TRS operating expenses and total TRS investment in general accordance with Part 32 of the Commission's rules) and financial data (*e.g.*, administrative expenses, assets, fund balances). In addition, NECA should include in this monthly report a detailed explanation of any discrepancies or errors uncovered in its regular review of TRS provider data. Discrepancies or errors include, but are not limited to, duplicate minutes, billing for test calls, and billing for calls associated with the installation of VRS telephones.

Fifth, NECA should submit to OMD and the Inspector General each month, within 10 days of the end of the month, a status report addressing any corrective action arising from audit reports issued by the Inspector General or other auditors. This audit follow-up report should include, among other things, information about the status of any actions to recover improperly disbursed funds.

Finally, NECA should ensure that it notifies the Commission in writing (including the Inspector General, OMD and CGB) of potential noncompliance or any waste, fraud, or abuse that it uncovers in its capacity as the administrator of the TRS Fund as soon as possible, but in any event, not later than seven (7) days after identifying the potential noncompliance. NECA shall ensure that it notifies the Inspector General in writing of any potential fraud or fraud indicators that it uncovers in its capacity as the administrator of the TRS Fund within 24 hours of discovery. In addition, NECA should notify the Commission in writing (including the Inspector General, OMD and CGB) of any failure on the part of any TRS provider to submit any information required under Commission rules or requested by NECA.

If you have any questions, please do not hesitate to call me at (202) 418-1919. You may also contact the Commission's Chief Financial Officer, Mr. Mark Stephens.

Sincerely,



Anthony J. Dale  
Managing Director

CC: Kent R. Nilsson, Inspector General  
Cathy Seidel, Chief, Consumer and Governmental Affairs Bureau  
Kris Monteith, Chief, Enforcement Bureau