

USAC's Role in the Evolving Environment

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Topics to address:

- Programs to assure the future integrity of Universal Service
- USF Program Best Practices
- Strategies and options to improve utilization of Universal Service Resources

Environmental Changes

- Implementation of the Beneficiary/Contributor Compliance Audit Program (BCAP)
- Implementation of the Payment Quality Assurance (PQA) program
- Trends in prior audit findings
- Recommendations for USF process improvement
- Training Opportunities (training events, conference calls, webinars)
- E-Filing Assistance

Safeguarding USF – BCAP



Prior Audit Program

- At the direction of the FCC OIG
- Single program for both evaluating compliance with Commission rules and assessing rates of improper payments
 - One size fits all
 - Attest examinations
 - Condensed timeframe
 - Extremely costly
 - Burdensome for beneficiaries
 - Limited coverage
- Ineffective at assessing rates of improper payments

NEW 2010 Audit Program

- Work content and objectives fundamentally different and therefore should be:
 - Planned
 - Managed
 - Resourced to meet distinct needs

Benefits of Future Direction

- Workload spread over full year
- Matches work scope to beneficiary size / risk
- Coverage expanded to all four programs and contributors
- Dramatically reduced cost
- Reduced burden on stakeholders
- Maintain pool of trained auditors

BCAP Beneficiary/Contributor Compliance Audit Program

- Ensure compliance with FCC Rules
- Prevent, detect, and deter waste, fraud, and abuse
- Recover funds for rule violations
- Ensure equitable contributions to USF

BCAP Audit Announcement Letter

- Stated objectives and activities under audit
- Projected timing and audit team
- Request documents needed for audit

USAC Audit Engagement Lead

- USAC Internal Audit Division staff member
- Primary point of contact with questions
- Solicits your input on the audit

Review of Documentation

- Requirement to review documents prior to field visit
- Performance of procedures before field visit

Field visit (if applicable)

- “Right size” staff to entity under audit
- Agreeable time for visit
- **Goal:** Minimize interruption

If on site test work is conducted:

- Conduct interviews with staff
- Depending on audit, may conduct inventories
- Request additional documentation during this time
- Keep open communication with entity under audit (requirement for auditors)
- Provide an audit status at the end of field visit

Goal: Communicate Results

- Exit audit conference to close the audit
- Draft report
 - Review by USAC Engagement Lead
 - Quality Assurance review by audit firm
- Provide audit findings to entity for review and response
- USAC management will respond to entity's comments
- Final report presented to USAC Board of Directors
- Entity provided with a final copy

Audit TIPS

- Ask questions
- Keep accurate records
- Properly label records
- If schedules or summary documentation do not agree to amounts reported, provide reconciliations
- Get your NECA regional representative and cost consultant involved (High Cost Audits)
- DOCUMENT everything

Safeguarding USF - PQA



PQA Process – Key Elements

- 1) Specifically designed to assess estimated rates of improper payment
- 2) This is not an Audit!
- 3) Commitment to support IPIA requirements

What are the PQA Program guidelines?

- Covers each of the four programs
- Measures accuracy of USAC payments to applicants
- Evaluates eligibility of program applicants
- High level testing of information obtained from program participants
- Tailors scope of procedures to ensure reasonable cost while meeting IPIA requirements

PQA is a 5 Step Process

1. USAC will select beneficiaries for payment quality assessment.
2. USAC will contact the beneficiary and request payment documentation and/or confirmation of eligibility.
3. Beneficiary information is reviewed by USAC.
4. USAC concludes on the payment and closes the case.
5. USAC submits the annual assessment results to the FCC.

The PQA Program is new to USAC and the FCC.

It is designed to:

- Minimize requirements placed on beneficiaries
- Significantly decrease processing time
- Capitalize on documents within USAC
- Not require USAC to be on site

Further information on the PQA Program

- Detailed description of the PQA program - <http://www.usac.org/fund-administration/about/program-integrity/pqa-program.aspx>
- Listing of Frequently asked Questions and their Answers - <http://www.usac.org/fund-administration/about/program-integrity/pqa-faqs.aspx>

USF Best Practices



USF Best Practices: Line Counts

Problems

- Duplicate lines
- Reported in the incorrect rate Zone
- Misclassified as to whether single and or multi lines
- Lines' billing addresses were outside the study area
- Included an inactive line on its line-count
- Unable to provide billing system data to support official lines

USF Best Practices: Line Counts

Error Detection

- Customer billing line-count detail
- Subscriber listings

Best Practice Solution

- System must retain historical data of reported levels that can be retrieved or accurately recreated
- Maintain a document retention policy for customer billing and outside plant access line reports

USF Best Practices: Asset Valuation

Problems

- Lack of proper documentation
- Continuing Property Records (CPR) not posting adds (invoices) and retirements in a timely manner
- Lack of consistent periodic reviews
- Unable to provide invoices and proper supporting documentation to support COE for audit sampling
- Did not maintain documentation for write offs or expense capitalization

USF Best Practices: Asset Valuation

Error Detection

- Depreciated assets in excess of the salvage rates approved by the PSC
- Reconcile CPR balances to related General Ledger accounts

Best Practice Solution

- Implement a document retention policy to retain work order record or approved worksheets for any retirements or adjustments
- Set up a tracking system to assure updates to the CPR
- Conduct periodic reviews of CPR

USF Best Practices: Intra-Company Allocation

Problems

- Allocations conducted in a manner that is non-compliant with regulations.
- Lack of sufficient documentation as to the logic behind allocations
- Affiliates allocation factors were not supported.
- No quantitative support for the rate used for services provided for their affiliate.

USF Best Practices: Intra-Company Allocation

Error Detection

- Test pricing and costs related to transactions between Parent and its affiliates in comparison to fees paid to non-related entities

Best Practice Solution

- Recorded transactions with affiliates in accordance with FCC Rules (47 C.F.R. § 32, 36)
- Utilize YTD financial data for affiliates
- Establish a system of controls

USF Best Practices: System Security

Problems

- No policies and procedures for validation of user access to computer systems
- No proper procedures or tracking system for assets and the related documentation

USF Best Practices: System Security

Error Detection

- Personnel records do not contain authorizing signature of supervisor indicating reviews performed
- Process did not determine the risk of user access being inappropriate over time due to such factors as reassignments, promotions, termination
- No serial numbers on all equipment in its accounting records that could be used to locate and identify the related item to its physical location

USF Best Practices: System Security

Best Practice Solution

- Periodic recertification of each employee's user access to ensure access remains appropriate to the users' job function
- Supervisory review signature were denoted on the review performed on users' job functions
- Establish tracking and reporting guidelines and requirements integrated with CPR tracking of adds/retirements, with periodic review of performance

USF Best Practices: De-Regulated/Regulated Allocation

Problems

- Regulated recovery of a de-regulated asset
- Improper costs are recovered due to reporting errors to USAC
- Inconsistencies and non-compliance issues

USF Best Practices: De-Regulated/Regulated Allocation

Error Detection

- Review accounting of payroll costs
- Review sample of product codes for compliant regulated/de-regulated treatment

Best Practices Solution

- Establish compliant mapping of each activity code to the valid general ledger account number
- Develop improved system for tracking assets and transactions
- Improve document retention and review processes periodically for regulatory compliance

USF Best Practices: Adequate Advertisement

Problems

- Not advertising services and charges utilizing media of general distribution
- **Particular** – Did not advertise access to:
 - Emergency and operator services
 - Local and lifeline services

USF Best Practices: Adequate Advertisement

Error Detection

- Take rates on “Supported Services” at below average level
- Review of processes is unable to detect documentation of advertising of Supported Services

Best Practices Solution

- Formalize process to comply with 47 C.F.R. § 54.101’s notification requirements
- Periodic review of the annual notification in media of general distribution
- Documentation of annual notification retained

USF Best Practices: ETC Certification by Area

Problems

- Lines and revenue identified for improper study area/exchange locations
- Improper mapping

USF Best Practices: ETC Certification by Area

Error Detection

- Sample testing of the mapping of customer on borders of study area/exchange boundaries

Best Practices Solution

- Employ industry standard geo-code mapping programs to customer billing addresses for valid locating of lines
- Periodic review of customer service locations reconciled to internal network
 - **Note:** this type of geo-coding is already required for all broadband lines as per FCC Docket 07-38

USF Best Practices: Usage and Revenue Reporting

Problems

- Improper amounts are being reported to USAC and NECA which distort proper USF distribution
- No internal process for reviewing documentation supporting compliance filings

USF Best Practices: Usage and Revenue Reporting

Error Detection

- Reconcile financial and operations budgets
- Trending compliance reported amounts between periods

Best Practices Solution

- Reported network usage with Carrier Access Billing System (CABS) intercompany report
- Reported revenues from retail and wholesale customer billing
- Part 32 Account Balances in corporate financial statements supporting documentation
- Access line and plant information listed in CPR

USAC's Resources



High Cost Program Goals

- Improve accuracy of companies' filings
- Improve companies' document retention practices
- Improve companies' internal controls
- Raise usage rates of online forms
- Support state commissions' work with program participants

High Cost Outreach Events

- Regional training sessions for beneficiaries
- Collocated workshops & education sessions held on-site at professional meetings
- Webinars
- Partner organization outreach: dissemination of information through third-party organizations' network (direct mail, weblinks, etc.)
- Individual outreach: in-person visits, video-conference sessions, phone/email exchanges, etc.

High Cost Outreach Products

- Online video tutorials
- Information packet for ETC's
- Website tools
- Monthly e-newsletters
- Announcements for distribution by partner organizations about program dates and news items
- Brochures & display materials

THANK YOU!

Please feel free to contact me regarding any questions or concerns you may have on this presentation or any other USAC issue.

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