

# High Cost & Low Income Audits & Assessments



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- Assessments
- Audits
- Common exceptions
- Record retention recommendations



# High Cost & Low Income Audits & Assessments

## **BCAP (Beneficiary and Contributor Audit Program)**

Designed to assess compliance with FCC rules and safeguard the USF via performance audits or agreed-upon procedure reviews

## **PQA (Payment Quality Assurance Program)**

Designed to assess estimated rates of improper payments via assessments, not audits

## BCAP

- Covers each of the four programs and contributors
- Measures compliance with FCC rules
- Evaluates accuracy of data submitted for USF purposes
- Matches work scope to entity type/size/risk
- Dramatically reduced cost
- Reduced burden on stakeholders
- Maintain pool of trained auditors

## PQA Program

- Covers each of the four programs
- Measures accuracy of USAC payments to program participants
- Evaluates eligibility of program participants who have received payments
- High level testing of information obtained from program participants
- Tailors scope of procedures to ensure reasonable cost while meeting IPIA requirements for sample size and precision

- Preserve the ***integrity*** of the USF
  - USAC external auditors
  - FCC external auditors
  - FCC
  - GAO

# High Cost & Low Income **Payment Quality Assurance (PQA)**



## Payment Integrity

- Assist FCC in complying with 2002 Improper Payments Information Act (IPIA) and 2010 Improper Payments Elimination and Recovery Act (IPERA)
- Recover funds for improper payments
- Develop plan to reduce improper payments

*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 onsite

The PQA Program is a **5-step** quality assurance process

## What is the process?

**1**

USAC will select  
beneficiaries for payment  
quality assessment

## What is the process?

**1** USAC will select beneficiaries for payment quality assessment

**2** USAC contacts beneficiary & requests payment documentation and/or confirmation of eligibility

## What is the process?

**1** USAC will select beneficiaries for payment quality assessment

**2** USAC contacts beneficiary & requests payment documentation and/or confirmation of eligibility

**3** Beneficiary information is reviewed by USAC

## What is the process?

USAC concludes on the  
payment and closes  
the case

4

## What is the process?

4

USAC concludes on the payment and closes the case

5

USAC submits the annual assessment results to the FCC



This is  
**NOT**  
an audit

- Revenues reported on the ICLS Form 509 are over/understated
  - End User Subscriber Line Charge (SLC)
  - Uncollectible SLC
  - Special Access Surcharge (SAS)
- High Cost Loop (HCL) Category 1.3 Loops reported on the HCL Data Collection Form are over/understated

- Line counts reported on the Form 525 are over/understated
  - Unsupported
  - Ineligible
  - Duplicate

# PQA Common Follow-Up Questions

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- Cost study, trial balance, and line count support provided for incorrect time period
  - Provide data related to the most recent quarterly (DAS) filing preceding the disbursement
- Part 36 provided for Cost Study request
  - Need the Cost Study used to prepare the HCL Data Collection Form

# PQA Common Follow-Up Questions

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- Support for Form 509 does not agree to Form 509
  - Provide reconciliation or explanation for difference
- Billing system summary not directly from billing system



High Cost & Low Income  
**Beneficiary and Contributor  
Audit Program (BCAP)**

## Program Integrity

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

## Regulatory Requirements

- 47 C.F.R. § 54.707, USAC has authority to conduct audits
  - ...USAC may suspend or delay amounts if carrier fails to provide adequate verification...*
- Inspector General Act of 1978, as amended



## Audit Requirements

- Audits must be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS)  
C.F.R. 54.702(n).
- Auditor must obtain sufficient, appropriate evidence to substantiate audit findings and recommendations  
GAGAS 6.56 (August 2011).
  - Lack of adequate documentation to verify the information that carriers report for USF purposes **will** result in a finding

**1** **PLANNING**

**2** **FIELDWORK**

**3** **REPORTING**

## **1** **PLANNING**

- Announcement letter
- Entrance conference
- Questionnaires, PBC list
- Onsite visit schedule, if applicable
- IAD contact person

## 1 PLANNING

## 2 FIELDWORK

- Perform audit procedures

## 1 PLANNING

## 2 FIELDWORK

## 3 REPORTING

- Quality assurance review
- Exit conference
- Responses to audit findings and other matters



High Cost & Low Income

**Fieldwork**

## High Cost Loop Support (HCL)

- **Internal Controls:** obtain an understanding of the HCL reporting process
- **Line Counts:**
  - Obtain an understanding of the line count process
  - Obtain summary schedule by line type (e.g., billing system report)

## **HCL: Cost Companies**

- Obtain documentation to support each amount reported on Data Collection form (e.g., trial balance, cost studies, CPRs)
- Select sample and obtain further supporting documentation (e.g., invoices, work orders)
- Perform inventory of fixed assets

## **HCL: Average Schedule Companies**

- Obtain documentation to support number of exchanges and lines reported (e.g., state approval, billing summary report)



## Local Switching Support (LSS)

- **Internal Controls:** obtain an understanding of the LSS reporting process
- **Line Counts:**
  - Obtain an understanding of the line count process
  - Obtain summary schedule by line type (e.g., billing system report)

## LSS: Cost Companies

- Obtain documentation to support each amount reported on LSS Form (e.g., trial balance, cost studies, CPRs)
- Select sample and obtain further supporting documentation (e.g., invoices, work orders)
- Perform inventory of fixed assets
- Compare projected amounts to true-up

## **LSS: Average Schedule Companies**

- Obtain documentation to support number of exchanges, lines and access minutes (e.g., access minutes report)

## Interstate Common Line Support (ICLS)

- **Internal Controls:** obtain an understanding of the ICLS reporting process
- **Line Counts:**
  - Obtain an understanding of the line count process
  - Obtain summary schedule by line type (e.g., billing system report)
  - Examine R/SLB vs. MLB classification

## ICLS

- Obtain documentation to support each amount reported on Forms 507, 508, 509 (or equivalent) (e.g., trial balance, cost study, CABs)
- Compare projected amounts to true-up

## **ICLS: Average Schedule Companies**

- Obtain documentation to support number of exchanges and lines reported (e.g., state approval, billing summary report, CABs)
- Obtain documentation to support each amount reported on the ICLS and NECA forms (AS-1000s, AS-3000s, 24-month view, 25-month view)

## High Cost Model Support (HCM)

- **Internal Controls:** obtain an understanding of the HCM reporting process
- **Line Counts:**
  - Obtain an understanding of the line count process
  - Obtain summary schedule by wire center (e.g., billing system report)

## Interstate Access Support (IAS)

- **Internal Controls:** obtain an understanding of the IAS reporting process
- **Line Counts:**
  - Obtain an understanding of the line count process
  - Obtain summary schedule by line type (e.g., billing system report)
  - Examine R/SLB vs. MLB classification



## Interstate Access Support (IAS)

- Obtain documentation to support CMT revenue (e.g., federal tariff filing)
- Obtain documentation to support UNE zone rates (e.g., state approval)
- Obtain documentation to support CLLI code-to-zone classification (e.g., state approval)

# High Cost Common Exceptions

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- Billing system report and/or subscriber listing does not agree to the line counts reported to NECA/USAC
- Line counts are reported in an incorrect or ineligible wire center, study area, or zone
- Line counts are assigned to the wrong ILEC or not in accordance with the ILEC's disaggregation plan

\* **This list is not meant to be all-inclusive.**

# High Cost Common Exceptions

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- Non-revenue producing and/or non-working loops are reported in the line count filing
  - Subscriber lines are misclassified as residential/single line business or multi-line business
  - Line counts, revenues (e.g., Common Line, Subscriber Line Charge), and Minutes of Use (MOU) are reported on a cycle basis and not on the “as of date”
- \* **This list is not meant to be all-inclusive.**

# High Cost Common Exceptions

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- No or inadequate documentation to support fixed assets (CPRs) (e.g., central office equipment or cable and wire facilities, etc.)
- Fixed assets were recorded improperly
- Fixed asset and expense amounts are categorized and/or capitalized incorrectly

\* **This list is not meant to be all-inclusive.**

# High Cost Common Exceptions

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- Non-regulated assets, expenses, revenues are reported on the High Cost forms (Data Collection Form, LSSc, LSSa, Form 509, etc)
- No or inadequate documentation to support expenses (e.g., cable and wire expense, corporate operations expense, etc.)
- Operating expenses were recorded improperly

\* **This list is not meant to be all-inclusive.**

# High Cost Common Exceptions

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- No or inadequate documentation to support cost study adjustments
- No or inadequate documentation to support allocation methodology
- No or inadequate documentation to support affiliate transactions

\* **This list is not meant to be all-inclusive.**

## Internal Controls

- Obtain an understanding of the Form 497 reporting process

## Obtain evidence of advertising to verify:

- Availability of low-income discounts publicized
- Method used is reasonably designed to reach those likely to qualify for service

## Number of Subscribers (LL, LU, TLS)

- Obtain billing system report and subscriber listing to substantiate what was claimed

## Lifeline Amount

- Tier 1 – Obtain documentation of Subscriber Line Charge
- Tier 2 – \$1.75
- Tier 3 – Obtain documentation of state or company discounts provided
- Tier 4 – Obtain documentation to substantiate how amount was calculated



## Link Up Amount

- Obtain tariff to substantiate connection charges

## Toll Limitation Service (TLS) Amount

- Obtain documentation to substantiate incremental cost
- Amount claimed should not be amount charged to non-Lifeline subscribers

## Subscriber Bills

- Ensure amounts claimed on Form 497 have been passed on
- Ensure certain fees are not assessed (LNP, TLS)
- Ensure certain fees are assessed properly (USF)
- Tribal subscribers, ensure bills did not fall below \$1 for basic service

## Certification Forms

- Obtain documentation that subscribers were eligible to receive discounts (before providing the discount)

## Verification

- Rules vary: federal default or state mandated state
- Notify subscribers of impending termination with 60 days to prove qualification

## Other Tests

- Ensure subscribers are located in designated areas
- Ensure tribal subscribers reside on tribal lands
- If prorated/partial discounts are provided, amounts can be claimed on Line 9

## Duplicate Claims Testing

- Ensure wholesale carrier and reseller are not claiming support for subscribers at same address
- Ensure wireline carrier and wireless carrier are not claiming support for subscribers at same address

Federal-State Joint Board on Universal Service, FCC 97-157, 12 FCC Rcd 8776, 8873, ¶ 380 (1997), (Universal Service Order), FCC 97-157, at ¶ 380.

*In the Matter of Lifeline and Link Up*, FCC 04-87, 19 FCC Rcd 8302, 8306, ¶ 4 (2004).

# Low Income Common Exceptions

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- Number of subscribers claimed on the Form 497 are over/understated
- No or inadequate documentation to support the number of subscribers claimed on the Form 497
- Rates claimed on the Form 497 are over/understated
- No or inadequate documentation to support the rates claimed on the Form 497

\* **This list is not meant to be all-inclusive.**

# Low Income Common Exceptions

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- Duplicates noted on subscriber listing
- No or inadequate documentation certification documentation
- No or inadequate documentation verification documentation
- Improper qualification criteria

\* **This list is not meant to be all-inclusive.**

# Low Income Common Exceptions

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- Low Income Program support not passed on to subscribers
- Improper billing practices
- Improper federal USF fee assessed

\* **This list is not meant to be all-inclusive.**



# High Cost & Low Income **Reporting**



## Reporting Process

- Quality assurance review of audit work
- Prepare audit results:
  - **Finding** - rule violations
  - **Other Matter** - not a rule violation but issue warrants attention
- Issue audit results to auditee (exit conference)
- Incorporate auditee response

## Reporting Process (cont.'d)

- Issue audit results, including auditee responses to USAC mgmt for review/response
- Incorporate USAC mgmt response
- Audit survey
- Report finalized by USAC HCLI Committee

**1** Issue Final Report

**2** Letter to  
Beneficiary

**3** Opportunity  
for Appeal

## **1** Issue Final Report

### USAC Management Resolution

- No further action required
- Submit additional documentation
- Monetary recovery

## **1** Issue Final Report

## **2** Letter to Beneficiary

- Separate letter sent to beneficiaries for monetary recoveries

**1** Issue Final Report

**2** Letter to Beneficiary

**3** Opportunity for Appeal

- 60 days to appeal
- 47 C.F.R. §§ 54.719 to 54.725

# High Cost & Low Income **Record Retention**

## High Cost Guidelines

FCC Rule (FCC 07-150 adopted 08/29/07)

- Applicable to “all agents of the recipient” (NECA, cost consultants, or contractors working on behalf of beneficiary)
- Make records available to FCC OIG, USAC, or auditors engaged by FCC OIG or USAC



- Retain 5 years from date of disbursement (i.e., up to 7 years from record creation)
- Data supporting:
  - 1) Line Counts
  - 2) Customer records
  - 3) Fixed asset property accounting records
  - 4) Contracts for equipment upgrade
  - 5) Other
- Rule **does not** supplant the Part 32.2000(c)(2) rule on CPRs

## **High Cost Loop, Local Switching Support**

- Trial balances
- Detailed general ledger reports
- Financial statements
- Cost studies (including adjustments)
- Line counts, subscriber listing
- Federal income tax returns
- Deferred tax accrual schedules

## Continued...

- Accumulated depreciation schedules
- Current year depreciation schedules
- Support for benefits and rents
- Invoices, contracts
- Continuing property records (CPR)
- Allocation factors, affiliated transactions
- Disaggregation plans
- **Average Schedule:** access minutes, exchanges

## Interstate Common Line Support

- Carrier Access Billing (CABs)
- Supporting documentation for subscriber line charges, special access surcharge revenue, and line port costs in excess of basic analog service
- Support for uncollectible balances
- Reconciliations between Part 36 cost study and revenue requirement
- Line counts, subscriber listing

## **High Cost Model Support**

- Line counts, subscriber listing

## **Interstate Access Support**

- Line counts, subscriber listing
- CLLI code-to-zone classification
- Unbundled Network Element (UNE) zone maps and rates
- Supporting documentation for CMT revenue

## Low Income Guidelines

- Must maintain records for 3 years records to document compliance with FCC and state requirements
- **Carriers in federal default states:** retain consumers self-certification of eligibility as long as consumer receives Lifeline, plus 3 years (*See* 47 C.F.R § 54.417(a); Report and Order, FCC 07-150 (released August 29, 2007) at ¶ 25).
- **Non-ETC resellers:** retain documentation to prove Lifeline service is only provided to eligible low-income consumers (*See* 47 C.F.R § 54.417(b)).

- Summary schedule
- Subscriber listing
- Subscriber bills
- Certification forms
- Tariffs or price lists
- Support for incremental cost of providing TLS
- Certifications from resellers
- Advertising



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**How can you help?**



1. Provide documentation in a **TIMELY** manner.
2. Ask **QUESTIONS** to ensure you are providing adequate documentation.
3. Keep accurate **RECORDS** of all data submitted and properly label such records.
4. Provide **RECONCILIATIONS** for any conflicting information in reporting.
5. Get your **NECA** regional representative and cost consultant involved.
6. Always **DOCUMENT** everything!



**Thank You!**

Questions or comments?  
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