

High Cost & Low Income Audits & Assessments



- Assessments
- Audits
- Record retention recommendations



High Cost & Low Income **Audits & Assessments**

BCAP

Beneficiary/Contributor Compliance 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 Program

- 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 beneficiary 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 applicants
- Evaluates eligibility of program applicants 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

High Cost & Low Income

Payment Quality Assurance (PQA)

Payment Integrity

- Assist FCC in complying with Improper Payment Information Act (IPIA)
- Recover funds for improper payments
- Develop plan to reduce improper payments

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

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



High Cost & Low Income
**Beneficiary/Contributor
Compliance 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.
Therefore, the lack of adequate documentation to verify information carriers report for USF purposes will result in a finding.
GAGAS 7.55 (July 2007).

1 **PLANNING**

2 **FIELDWORK**

3 **REPORTING**

1 **PLANNING**

- Announcement letter
- Entrance conference
- Issue questionnaires, PBC list
- Schedule onsite visit, if applicable
- IAD contact person

1 PLANNING

2 FIELDWORK

- Perform audit procedures

1 PLANNING

2 FIELDWORK

3 REPORTING

- Quality assurance review
- Communicate audit results



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)

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 claimed

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

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).

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)

- 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 Mgmt 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:
 - a) Line Counts
 - b) Customer records
 - c) Fixed asset property accounting records
 - d) Contracts for equipment upgrade
 - e) 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
- Support for incremental cost of providing TLS

High Cost & Low Income

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?
Please email auditingquiry@usac.org

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