- Enhance the preparation, review and approval processes governing the calculation of depreciation to ensure compliance with FCC Rules and Orders.
- Enhance controls to ensure all underlying documentation in support of asset amounts recorded on the books and records is retained in accordance with applicable FCC Rules and Orders.
- Establish, document and implement procedures to address the preparation, review and approval processes related to the Part 64 cost allocation of joint and common costs to ensure compliance with FCC Rules and Orders.
- Enhance the preparation, review and approval processes to properly identify and account for regulated expenses and also retain appropriate documentation in accordance with FCC Rules and Orders.
- Ensure that the higher of fully distributed cost or fair market value is assessed to the non-regulated affiliates for services provided by the Beneficiary.
- Perform a more effective review and reconciliation of historical data between the source documentation and the HCP Forms prior to filing.
- Establish adequate controls to ensure the proper SLC is assessed to subscribers to ensure compliance with FCC Rules and Orders.

Attachment C

HC2016BE028

KPMG

Big Bend Telephone Company
Audit ID: HC2016BE028
(SAC No.: 442039)

Performance audit for the Universal Service High Cost Program Disbursements made during the twelve-month period ended December 31, 2015

Prepared for: Universal Service Administrative Company

As of Date: August 18, 2017

KPMG LLP
1225 17th Street
Suite 800
Denver, CO 80202

TABLE OF CONTENTS

KPMG LLP
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EXECUTIVE SUMMARY

August 18, 2017

Mr. Wayne Scott, Vice President – Internal Audit Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Mr. Scott:

This report presents the results of our work conducted to address the performance audit objectives relative to Big Bend Telephone Company, Study Area Code ("SAC") No. 442039, ("BBTC" or "Beneficiary") for disbursements, of $16,036,799, made from the Universal Service High Cost Program ("HCP") during the twelve-month period ended December 31, 2015. Our work was performed during the period from August 19, 2016 to August 18, 2017, and our results are as of August 18, 2017.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (2011 Revision, as amended) and *American Institute of Certified Public Accountants Consulting Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as FCC Orders governing federal Universal Service Support for the HCP (collectively, the "Rules") relative to disbursements, of $16,036,799, made from the HCP during the twelve-month period ended December 31, 2015. Compliance with the Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

As our report further describes, KPMG identified eight findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the HCP for the twelve-month period ended December 31, 2015 were $696,920 higher than they would have been had the amounts been reported properly.

This report is intended solely for the use of the Universal Service Administrative Company, the Beneficiary, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties.

Sincerely,

KPMG LLP

List of Acronyms

Acronym	Definition
ARC	Access Recovery Charge
BBT	Big Bend Telecom
BBTC	Big Bend Telephone Company
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF	Connect America Fund
COE	Central Office Equipment
CPRs	Continuing Property Records
ETC	Eligible Telecommunications Carrier
FCC	Federal Communications Commission
FDC	Fully Distributed Cost
Form 509	Interstate Common Line Support Mechanism Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
GSA	General Support Assets
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
HCM	High Cost Model
HCP	High Cost Program
ICC	Intercarrier Compensation
ILEC	Incumbent Local Exchange Carrier
ISDN	Integrated Services Digital Network
IXC	Interexchange Carrier
MLB	Multi-Line Business
NECA	National Exchange Carrier Association
PBO	Payroll, Benefits and Overhead
SAC	Study Area Code
SLB	Single-Line Business
SLC	Subscriber Line Charge
SNA	Safety Net Additive
SVS	Safety Valve Support
TB	Trial Balance
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery[1]
HC2016BE028-F01: Miscategorized Cable & Wire Facilities – The Beneficiary did not include four segments of interexchange routes in their C&WF study that resulted in the C&WF Category 1 amount reported in the HCL Form to be overstated by $2,231,595 due to the use of the residual categorization method.	$ 325,820	$ 325,820
HC2016BE028-F02: Improper Affiliate Transactions – The Beneficiary leased various General Support Assets from its non-regulated affiliate, BBT. The Beneficiary remitted a monthly lease payment for each of the assets leased from BBT based on a FDC analysis that was outdated and not updated on an annual basis to determine the FDC each year. In addition, the Beneficiary and its affiliate were unable to fully support two leased assets selected for testing.	$ 156,275	$ 156,275
HC2016BE028-F03: Inaccurate Depreciation Calculation – The Beneficiary used month end balances instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules. In addition, the Beneficiary applied an incorrect depreciation rate for certain accounts.	$ 95,151	$ 95,151
HC2016BE028-F04: Improper Allocation Methodology – The Beneficiary failed to apply allocation factors to various General Support Asset, related Accumulated Depreciation, and Operating Expense account balances to apportion joint and common costs to regulated and non-regulated activities during the Part 64 cost allocation process.	$ 75,599	$ 75,599
HC2016BE028-F05: Misclassified Expenses – Several expense items were either recorded to incorrect Part 32 accounts, related to non-regulated activities, were unsupported or not necessary for the provision of HCP supported services.	$ 43,927	$ 43,927
HC2016BE028-F06: Inaccurate Revenues – SLC revenues reported on Form 509 were overstated by $1,397 and ISDN revenues reported on Form 509 were overstated by $1,812.	($ 3,209)	($ 3,209)

[1] The recovery amount noted in the table is not reflective of prior period or cap adjustments. The actual recovery amount for this final audit report will not exceed the proposed recovery amount.

Audit Results	Monetary Effect	Recommended Recovery[1]
HC2016BE028-F07: Inaccurate Revenues – ARC revenues reported on the CAF ICC True-up Form for Program Year 2013 were understated by $2,337.	$ 2,337	$ 2,337
HC2016BE028-F08: Inaccurate Loop Counts – Total Loops, Category 1.3 Loops and Access Lines reported on the HCP Forms did not agree to source documentation.	$ 1,020	$ 1,020
Total Net Monetary Effect	**$696,920**	**$696,920**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery of the High Cost Program support amount noted in the chart below. USAC recognizes that the beneficiary has implemented specific processes and procedures to comply with FCC rules. USAC requests that the Beneficiary provide a detailed description of the policies and procedures implemented to address findings #1, #2, and #5 no later than sixty (60) days after receipt of this audit report. Please submit the requested information to hcaudits@usac.org. The Beneficiary may be subject to further review if the Beneficiary does not provide the requested information to USAC.

	ICLS	CAF ICC	HCL	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1			$325,820	$325,820	
Finding #2	$52,858		$103,417	$156,275	
Finding #3	($ 52)		$ 95,203	$ 95,151	
Finding #4	$24,148		$ 51,451	$ 75,599	
Finding #5	$13,668		$ 30,259	$ 43,927	
Finding #6	($3,209)			($ 3,209)	
Finding #7		$2,337		$ 2,337	
Finding #8			$ 1,020	$ 1,020	
Mechanism Total	**$87,413**	**$2,337**	**$607,170**	**$696,920**	**$0**

As a result of this audit, USAC management will recover $696,920 of High Cost Program support from the Beneficiary for SAC #442039.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation that operates under the direction of the FCC pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the USF through four support mechanisms: High Cost; Low Income; Rural Health Care; and Schools and Libraries. These four support mechanisms ensure that all people regardless of location or income level have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations or advocate regarding any matter of universal service policy.

The High Cost Support Mechanism, also known as the HCP, ensures that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas, regardless of location or economic strata. Thus, the HCP provides support for telecommunications companies (Beneficiaries) that offer services to consumers in less-populated areas. The HCP consists of the following support mechanisms:

1. HCL: HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following two sub-components:
   a. SNA: SNA support is available for carriers that make significant investment in rural infrastructure in years when HCL support is capped and is intended to provide carriers with additional incentives to invest in their networks.
   b. SVS: SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. HCM: HCM support is available to carriers serving wire centers in certain states where the forward-looking costs to provide service exceed the national benchmark.
3. CAF ICC: CAF ICC support is available to ILECs to recover revenue that is not covered by Access Recovery Charges (ARC) to the end user.
4. ICLS: ICLS is available to rate-of-return incumbent carriers and competitive carriers, and is designed to help carriers offset interstate access charges and to permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its SLCs remain affordable to its customers.
5. IAS: IAS is available to price cap incumbent carriers and competitive carriers, and is designed to offset interstate access charges for price cap carriers.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as FCC Orders governing federal Universal Service Support for the HCP relative to disbursements, of $16,036,799, made from the HCP during the twelve-month period ended December 31, 2015.

Beneficiary Overview

Big Bend Telephone Company (SAC No. 442039), the subject of this performance audit, is a rural ILEC located in Alpine, Texas. BBTC offers broadband and voice services. Service areas include Alamito, Alpine, Big Bend National Park, Big Canyon, Calamity Creek, Comstock, Fort Davis, Fort Stockton, Heath Canyon, Lajitas, Langtry, Marathon, McCamey, Presidio, Redford, Sanderson, Sheffield, Six Shooter and Terlingua.

The Beneficiary, along with various affiliated companies, Nevill Real Estate, LLC, Big Bend Management Co., LLC, and Big Bend Telecom, Ltd. are wholly owned subsidiaries of Nevill Holdings Inc.

The following table details the organization structure of the Beneficiary:

Name	Services Offered
Big Bend Telephone Company	Rural ILEC providing broadband and voice services
Nevill Holdings Inc.	Parent company
Nevill Real Estate, LLC	Provides real estate management services
Big Bend Management Co., LLC	Paper company, no activity
Big Bend Telecom, Ltd.	Rural CLEC providing internet and Long Distance services.

The following table illustrates the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2015 by fund type:

High Cost Support	Data Period	Disbursement Period	Disbursement Amount
High Cost Loop (HCL)	January 1 to December 31, 2013	January 1 to December 31, 2015	$10,682,735
Interstate Common Line Support (ICLS)	January 1 to December 31, 2013	January 1 to December 31, 2015	$ 4,537,746
Connect America Fund (CAF) Intercarrier Compensation (ICC)	July 1, 2013 - June 30, 2014	January 1 to December 31, 2015	$ 816,318
Total			**$16,036,799**

Source: USAC

The High Cost support received by the Beneficiary during the twelve-month period ended December 31, 2015, was based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2014-1 HCL Form, based on the twelve month period ended December 31, 2013,
- 2013 FCC Form 509, based on calendar year 2013 data, and
- 2013 CAF ICC Tariff Review Plan, based on program year 2013 data

The above Forms capture the totals of certain pre-designated G/L Accounts including all asset accounts that roll into the TPIS account as well as certain deferred liabilities and operating expenses, subject to the allocation between regulated and non-regulated activities (Part 64 Cost Allocations), the separation between interstate and intrastate operations (Part 36 Separations) and the separation between access and non-access elements (Part 69 Separations). In addition, the Beneficiary is required to submit certain annual investment data, including the categorization of COE and C&WF on the HCP Forms.

OBJECTIVES

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as FCC Orders governing federal Universal Service Support for the HCP relative to disbursements, of $16,036,799, made from the HCP during the twelve-month period ended December 31, 2015.

SCOPE

The scope of this performance audit includes, but is not limited to, reviewing HCP Forms or other correspondence and supporting documentation provided by the Beneficiary, assessing the methodology used to prepare or support the HCP Forms or other correspondence, and evaluating disbursement amounts made or potentially due based on filing of HCP Forms or other correspondence relative to disbursements made from the HCP during the twelve-month period ended December 31, 2015, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the HCP during the twelve-month period ended December 31, 2015.

KPMG identified the following areas of focus for this performance audit:[2]

1. General Procedures
2. Materiality Analysis
3. Reconciliation
4. Assets
5. Expenses
6. HCP Eligibility Forms
7. COE Categorization
8. C&WF Categorization
9. Payroll, Benefits and Overhead
10. Taxes
11. Part 64 Cost Allocations
12. Affiliate Transactions
13. Revenues, Subscriber Listings and Billing Records
14. Revenue Requirement

PROCEDURES

1. General Procedures

KPMG obtained and examined the ETC designation order to determine whether the Beneficiary was designated as an ETC in the study area prior to receiving HCP support. We obtained and examined the Beneficiary's state and/or self-certification letters for timeliness and the notation that all federal HCP support provided was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. We also obtained the Form 481 filed by the Beneficiary to determine whether the Beneficiary made the required certifications and whether the Beneficiary's supporting documentation agrees to the data reported for the certifications made.

2. Materiality Analysis

For the applicable HCP Forms, we obtained the forms submitted for the period ended December 31, 2013, input the information into KPMG's HCP models, and ran an automated materiality analysis that increased and decreased the account balances by +/- 50%, if the impact generated a +/- 5% or $100,000 change to overall disbursements, the individual line item/account was considered material for purposes of our performance audit.

[2] If exceptions were noted in areas other than the aforementioned in-scope areas as a result of our testing procedures and the execution of our performance audit, we identified those findings in the 'Results' section of the report.

3. Reconciliation

KPMG obtained the audited 2013 financial statements and reconciled to the G/L, from the G/L we reconciled to the Part 64 cost allocation inputs and then to the applicable HCP Forms. We obtained explanations for any reconciling differences.

4. Assets

KPMG utilized a monetary unit sampling methodology to select asset samples from material accounts identified in the relevant HCP Forms and compared CPR balances between prior and current years. We determined that asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the work orders and verified proper Part 32 categorization; and validated the physical existence of selected assets.

5. Expenses

KPMG utilized a monetary unit sampling methodology to select expense samples from material operating expense accounts identified in the relevant HCP Forms (HCL and ICLS) and compared expense account balances between prior and current years. We selected an additional sample of expenses recorded in the General and Administrative Expense account to determine that such expenses were incurred in the provision of HCP supported services. Expense amounts were agreed to the supporting documentation such as invoices and were reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

6. HCP Eligibility Forms

For the relevant HCP Forms (HCL, ICLS and CAF ICC) completeness of reported accounts was determined via reconciliations to the audited financial statements via the 'Reconciliation' process described above. Reconciling items were discussed with the Beneficiary.

7. COE Categorization

KPMG reviewed the methodology established by the Beneficiary for COE categorization including the process for updating the network map and COE cost studies as well as performing a physical inspection. We validated that COE amounts reconciled to studies including reviewing power and common, Part 36 inputs and that amounts agreed to the HCL Form data.

8. C&WF Categorization

KPMG reviewed the methodology established by the Beneficiary for C&WF categorization including the process for updating the network map and C&WF cost studies. We compared C&WF amounts to the studies and the HCL Form data, performed a route distance inspection and also verified that all the wire centers recorded in the Beneficiary's network map were connected to subscribers at a point in time during the onsite fieldwork. We determined a discrepancy in C&WF Category 1 amounts after a detailed review of exchange segments included in the cost study.

9. Payroll, Benefits and Overhead

KPMG performed a walkthrough of the PBO process and selected a work order closed in 2013 from the asset sample selected for testing to perform flow-through payroll testing, tracing the transaction from the work order to the individual timesheet through the payroll process to the G/L. KPMG also selected a sample of employees and requested their timesheets from one period to verify the hours per the timesheets and extended labor dollars were classified to the correct Part 32 accounts. Additionally, we reviewed overhead clearing reports for a selected month and reviewed the overhead clearance process for compliance with Part 32 requirements.

10. Taxes

KPMG determined the tax filing status for the Beneficiary and obtained and reviewed the federal and state tax filings for 2013. KPMG reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness and developed an expectation of the effective tax rate. Additionally, we reviewed the Part 64 apportionment of operating tax account balances and evaluated the reasonableness of cost allocation methods.

11. Part 64 Cost Allocations

KPMG reviewed the Beneficiary's cost apportionment methodology and performed procedures to evaluate the apportionment factors which included performing a walkthrough with the Beneficiary and evaluating the reasonableness of the cost pool and regulated/non-regulated apportionment factors as compared to regulated and non-regulated activities performed by the Beneficiary, assessing the reasonableness of the allocation methods and corresponding data inputs used to calculate the material factors and recalculating each of the material factors.

12. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that occurred during 2013, such as FDC lease payment related to General Support Assets being leased to the Beneficiary by its affiliate, Big Bend Telecom. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the sample selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and categorized in the appropriate Part 32 accounts.

13. Revenues, Subscriber Listings and Billing Records

KPMG examined revenue G/L accounts, invoices and other related documentation to verify the accuracy and existence of revenue account balances. This included reviewing a sample of subscriber bills to verify that the SLC and ARC fees assessed to subscribers do not exceed the ceiling established for the applicable year. KPMG analyzed subscriber listings and billing records to determine that the number and type of lines reported in the HCP filings agreed to underlying support documentation that subscriber listings did not include duplicate lines, invalid data, or non-revenue producing or non-working loops, and that lines were properly classified as residential/single-line business or multi-line business.

14. Revenue Requirement

KPMG reviewed the calculation of the Beneficiary's revenue requirement, including assessing the reasonableness and application of Part 64 cost allocation, Part 36 and Part 69 separations and other cost study adjustments utilized in the calculation of the common line revenue requirement.

RESULTS

KPMG's performance audit results include a listing of findings, recommendations and Beneficiary responses, with respect to the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69, applicable to the disbursements made from the HCP during the twelve-month period ended December 31, 2015.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

KPMG's performance audit procedures identified eight findings. The findings, including the condition, cause, effect, recommendation and Beneficiary response are as follows:

Finding # HC2016BE028-F01: 47 C.F.R. Section 36.151(c) (2013) - Miscategorized Cable & Wire Facilities

CONDITION

The Beneficiary did not include four segments of interexchange routes in their C&WF study that resulted in the C&WF Category 1 amount reported in the HCL Form to be overstated due to the use of the residual categorization method. Subsequently, the Beneficiary in a revised C&WF study provided during the audit categorized two of the four segments noted above and an additional route segment primarily as C&WF Category 1 by reserving fibers for future Category 1 use, which could not be corroborated, as there are no subscribers connected to these segments and the route that includes the three segments primarily serves as a redundant interexchange route that connects to an IXC's access point outside of the Beneficiary's exchange boundary.

The C&WF Category 1 amount was overstated as follows:

Account	Reported	Recalculated	Difference
Cost Study Average C&WF Cat. 1	$61,825,582	$59,593,987	$2,231,595

CAUSE

The Beneficiary did not include all interexchange routes within its network in preparing the C&WF study that was based on the residual categorization method, which resulted in the C&WF Category 1 amount to be overstated and the remaining categories to be understated.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $325,820 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$325,820	$325,820
Total	**$325,820**	**$325,820**

RECOMMENDATION

The Beneficiary should enhance the preparation, review and approval processes governing the C&WF categorization study and ensure all routes within the network are considered in the study.

BENEFICIARY RESPONSE

Big Bend Telephone Company, Inc. agrees that four segments were excluded from the completion of the cable study. As KPMG noted above, Big Bend provided a revised cable study that apportioned the cost of two of the four excluded segments based on engineering documents depicting the future intended use of the redundant fiber ring and our interpretation of applicable FCC apportionment rules. While KPMG's interpretation of applicable FCC rules differs, Big Bend is willing to accept the monetary effect of Finding No 1.

Finding # HC2016BE028-F02: 47 C.F.R. Section 32.27(c) (2013) - Improper Affiliate Transactions

CONDITION

The Beneficiary leases various GSA, including buildings, vehicles, heavy equipment, work equipment & tools, and computers, from its non-regulated affiliate, BBT. The Beneficiary remits a monthly lease payment for each of the assets leased from BBT based on a FDC analysis that was outdated and not updated on an annual basis to determine the FDC each year. As a result, several assets that were fully depreciated or had further depreciated since they were put in service were being leased to the Beneficiary at a FDC based on when the lease was initiated (2006, 2007 etc.). This resulted in a net overstatement of various regulated Part 32 account balances reported in the HCP Forms. The FDC analysis was reviewed and updated by KPMG as of January 1, 2013 and January 1, 2014 to exclude any assets that were fully depreciated and also taking into account the proper depreciation rates to determine the appropriate monthly lease payments.

Additionally, 20 asset samples were selected to test BBT's GSA account balances included in the lease calculations to validate the cost and categorization of the assets. Two items were identified as partially supported, with a total unsupported amount of $256,236. This unsupported amount was also factored in determining the recalculated lease payments for the various asset groups that resulted in the differences noted in the table below.

Account	Reported	Recalculated	Difference
Total Lease Payments affecting 2014-1 HCL Form	$1,699,423	$1,342,195	$357,228
Total Lease Payments affecting 2014-2 HCL Form	$1,695,494	$1,333,830	$361,664

The regulated Part 32 account balances reported in the 2014-1 HCL Form (that also impacted the ICLS 2013 Form 509 submission) and 2014-2 HCL Form were overstated as follows:

Account	Difference (2014-1 HCL)	Difference (2014-2 HCL)
2003 – Telecom. Plant Under Construction	$ 35,003	$ 34,666
6110 – Network Support Expense	$ 67,062	$ 62,070
6120 – General Support Expense	$ 97,012	$107,796
6210 - Central Office Switching Expense	$ 26,863	$ 26,720
6230 - Central Office Transmission Expense	$ 53,607	$ 53,270
6310 – Information Origination/Termination Expense	$ 151	$ 146
6410 - Cable and Wire Expense	$ 57,221	$ 56,860
6530 - Network Operations Expense	$ 18,941	$ 18,936
6620 - Customer Service Expense	$ 812	$ 712
6720 - General and Administrative Expense	$ 556	$ 488
Total	**$357,228**	**$361,664**

CAUSE

The Beneficiary and its affiliate did not have adequate procedures and controls in place to ensure the FDC analysis used to determine the monthly lease payments was updated periodically to take into account depreciation of assets (operating and maintenance expenses related to these assets are recorded directly on the Beneficiary's books). In addition, the Beneficiary and its affiliate did not retain documentation to fully support all assets that are leased from the affiliate.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $156,275 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$103,417	$103,417
ICLS	$ 52,858	$ 52,858
Total	**$156,275**	**$156,275**

RECOMMENDATION

The Beneficiary should ensure that the FDC analysis established to determine the monthly lease payments for the various assets leased from its affiliate is updated periodically (at least annually). In addition, the Beneficiary should ensure that documentation supporting the leased assets is maintained to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

Big Bend Telephone Company, Inc. utilized an approved GAAP methodology for commercial lease development that calculated annual lease payments (paid in monthly installments) using Net Book Value of leased assets at commencement of the lease agreement. Big Bend Telephone agrees the annual lease payments were not updated annually to reflect current Net Book Value. Big Bend will take proper measures to ensure Fully Distributed Cost lease payments between Big Bend and its non-regulated affiliate ("BBT") are updated, at a minimum, on an annual basis as outlined in the annual lease agreements.

KPMG's lease development methodology utilized to quantify the difference in monthly lease payments and monetary effect in Finding No 2 exclude from calculation any newly leased assets where the lease agreement was executed after the date KPMG calculated Fully Distributed Cost calculations for all existing assets. Given the number of leased assets between Big Bend Telephone and BBT, to update lease payments any more than on annual basis would place an administrative burden on Big Bend's staff. Big Bend will utilize this approach, but it should be noted there will be instances of lease expenses not getting recorded on Big Bend Telephone's books for the number of months a new asset is in service until the end of year at which time the Fully Distributed Costs are re-calculated for all assets. Conversely, BBT will not recognize revenue for these leased assets until that same time. That said, Big Bend will implement procedures to ensure all leased assets are updated, at a minimum, annually to reflect current Net Book Value.

As noted above in KPMG's condition, two assets totaling $256,236 that were placed in service in 1993 and 2006 were removed from the lease calculations. The partial documentation provided by Big Bend included the work order detail and bank statements that supported the assets.

KPMG RESPONSE

KPMG's recalculations utilized the Beneficiary's underlying methodology but updated the net book value of the various leased assets on an annual basis and removed any unsupported assets. For the two assets that were partially supported, the Beneficiary was unable to provide appropriate third party supporting documentation (e.g., invoices) to support the entire cost of the asset balance, resulting in a portion of the leased assets to be considered unsupported and excluded from the lease calculations. KPMG's recalculations excluded any newly leased assets where the lease agreement was executed after January 1, 2013. The Beneficiary was provided the opportunity to update their lease calculations on a monthly basis throughout 2013 for evaluation, but they noted that it would place an administrative burden on their staff and instead agreed to update their lease calculations on an annual basis.

Finding # HC2016BE028-F03: 47 C.F.R. Section 32.2000(g)(2)(iii) (2013) - Inaccurate Depreciation Calculation

CONDITION

The Beneficiary did not accurately report accumulated depreciation ("AD") and depreciation expense ("DE") for the period due to various reasons as noted below.

a) The Beneficiary used month end balances instead of average monthly balances to compute depreciation as prescribed by FCC Rules.

b) The Beneficiary used a 10 percent depreciation rate for Account 2212.300000 (Central Office – Digital Soft Switch) rather than the 8.33 percent depreciation rate approved by the Public Utility Commission of Texas ("PUCT") and wasn't able to provide adequate documentation to support the approval of two depreciation rates by the PUCT for Account 2212.350000 (Central Office – Digital Standby Power) and Account 2423.200000 (Buried Cable – Fiber Optic).

c) The Beneficiary made calculation errors in computing the depreciation expense for various accounts.

The differences noted in the AD and DE balances for the twelve-month period ended December 31, 2013, impacting the 2014-1 HCL Form and 2013 Form 509, and for the twelve-month period ended March 31, 2014, impacting the 2014-2 HCL Form are as follows:

Account	AD – Difference (2014-1 HCL)	AD – Difference (2014-2 HCL)
3100 (2110) – AD (General Support)	$ 64	$ (64)
3100 (2210) – AD (COE Switching)	$ 46,579	$ 55,189
3100 (2230) – AD (COE Transmission)	$ 23,793	$ 92,725
3100 (2410) – AD (C&WF)	($16,412)	($16,196)
Total	**$ 54,024**	**$131,654**

Account	DE – Difference (2014-1 HCL)	DE – Difference (2014-2 HCL)
6560 (2110) – DE (General Support)	($ 64)	$ 64
6560 (2210) – DE (COE Switching)	($46,579)	($ 41,619)
6560 (2230) – DE (COE Transmission)	($23,793)	($279,144)
6560 (2410) – DE (C&WF)	$ 16,412	$ 25,998
Total	**($54,024)**	**($294,700)**

CAUSE

The Beneficiary did not have adequate processes in place governing the proper calculation of accumulated depreciation and depreciation expense using the appropriate methodology as prescribed by FCC Rules and using the appropriate depreciation rates approved by its state public utility commission.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $95,151 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$95,203	$95,203
ICLS	($ 52)	($ 52)
Total	**$95,151**	**$95,151**

RECOMMENDATION

The Beneficiary should enhance the preparation, review and approval processes governing the calculation of depreciation and the use of proper rates to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

Big Bend Telephone Company, Inc. responds to each condition as follows:

a) The Beneficiary used month end balances instead of average monthly balances to compute depreciation as prescribed by FCC Rules.

Big Bend Telephone, Co. disagrees with KPMG's interpretation that FCC rules prescribe the use of average monthly balances for the computation of depreciation. FCC Part 32 uses the word "normally" which gives some discretion to allowable convention. Use of ending balances produces immaterial timing differences each period compared to using average balances. Big Bend's depreciation software system is set up to use ending balances. The benefit to do additional manual calculations or have a software change do not justify the cost either to Big Bend or the ratepayer. Big Bend believes it's calculation of depreciation expense follows the intent of CFR FCC Part 32.2000(g)(2)(iii) that states:

"Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month."

Although burdensome, inefficient and immaterial, Big Bend reviewed its calculations of depreciation expense and made modifications to calculate depreciation expense using average monthly balances.

b) The Beneficiary used a 10 percent depreciation rate for Account 2212.300000 (Central Office – Digital Soft Switch) rather than the 8.33 percent depreciation rate approved by the Public Utility Commission of Texas ("PUCT") and wasn't able to provide adequate documentation to support the approval of two depreciation rates by the PUCT for Account 2212.350000 (Central Office – Digital Standby Power) and Account 2423.200000 (Buried Cable – Fiber Optic).

Big Bend Telephone, Co. agrees and has made corrections to apply proper depreciation rates to all assets.

c) The Beneficiary made calculation errors in computing the depreciation expense for various accounts.

Big Bend Telephone, Co. agrees calculation errors were made in computing depreciation expense for various accounts. As previously stated, Big Bend Telephone, Inc. has made corrections to ensure proper application of depreciation rates. Additionally, the over reporting of COE Transmission Depreciation Expense in the 2014-02 HCL filing was made in the calculation of depreciation expense as of March 31, 2014 financials and later identified and corrected in December 2014 during the annual financial audit prior to close of year end books.

KPMG RESPONSE

For the item disputed by the Beneficiary, KPMG notes the following:

a) FCC Rules prescribe the use of average monthly balances for the computation of depreciation per 47 C.F.R. Section 32.2000(g)(2)(iii). KPMG also notes that the exceptions to the average monthly balance calculation approach are further clarified in 47 C.F.R. Section 32.2000(g)(2)(iv), which states, "In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission." As the Beneficiary did not provide any documentation around prior Commission approval, KPMG notes that the use of average monthly balances for computation of depreciation would apply in this situation.

Finding # HC2016BE028-F04: 47 C.F.R. Section 64.901(a),(b)(2)-(3) (2013) - Improper Allocation Methodology

CONDITION

The Beneficiary did not appropriately perform Part 64 cost allocations to allocate GSA, related depreciation expense, and operating expense accounts between regulated and non-regulated activities resulting in the regulated balances reported in the HCP Forms to be inaccurate.

The allocation factor used to apportion various GSA accounts, and the related depreciation expense was based on outdated inputs from a 2012 labor distribution analysis, which was revised by KPMG using 2013 data. Further, the Beneficiary did not perform Part 64 cost allocations to allocate certain operating expense accounts between regulated and non-regulated activities, which were allocated based on a building study subsequently performed by the Beneficiary during the audit.

The regulated Part 32 account balances reported in the 2014-1 HCL Form (that also impacted the ICLS 2013 Form 509 submission) and 2014-2 HCL Form were overstated/(understated) as follows:

Account	Difference (2014-1 HCL)	Difference (2014-2 HCL)
2110 – GSA	($ 3,653)	($ 3,653)
3100 (2110) – Accumulated Depreciation (GSA)	($ 3,653)	($ 3,653)
6120 - General Support Expense	$137,174	$145,252
6530 – Network Operations Expense	$ 2,794	$ 2,796
6560 (2110) – Depreciation Expense (GSA)	($ 3,653)	($ 3,653)

CAUSE

The Beneficiary did not have adequate procedures and controls over the review and approval of Part 64 cost allocations of joint and common costs between regulated and non-regulated activities to ensure that all costs related to non-regulated activities were properly allocated.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $75,599 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$51,451	$51,451
ICLS	$24,148	$24,148
Total	**$75,599**	**$75,599**

RECOMMENDATION

The Beneficiary should establish, document and implement procedures to address the preparation, review and approval processes related to the Part 64 cost allocation of joint and common costs to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

> Big Bend Telephone Company, Inc. has reviewed Part 64 apportionment practices and established procedures to ensure proper cost allocation of joint and common costs. These procedures were implemented in the 2014 data year and each year thereafter.

Finding # HC2016BE028-F05: 47 C.F.R. Section 54.7 and *All Universal Service High-Cost Support Recipients Are Reminded That Support Must Be Used For Its Intended Purpose*, WC Docket Nos. 10-90 and 14-58, Public Notice, 30 FCC Rcd. 11821 (2015) - Misclassified Expenses

CONDITION

Nineteen (19) of 91 sampled operating expense transactions, totaling $279,384, were either recorded to incorrect Part 32 accounts, related to non-regulated activities, unsupported, or not necessary for the provision of HCP supported services.

Account 6610 – Sales and Marketing Expense

- Two items, totaling $3,345, related to the non-regulated portion of transactions that were related to both regulated and non-regulated activities.

Account 6710 – Executive and Planning Expense

- Nine items, totaling $76,793, were transactions that appeared to be not necessary for the provision of HCP supported services. These included items related to interior decoration of a condominium located in Austin, TX; expenses incurred during a trip to the United Kingdom; frequent car detailing charges incurred in Austin, TX; long term hotel stay in Austin, TX; private charter flights; and rental charges for an apartment in Austin, TX.

Account 6720 – General and Administrative Expenses

- One item, totaling $12,000, related to dues paid to an organization, Austin City Limits, was deemed not necessary for the provision of HCP supported services.
- Three items, totaling $67,950, were expenses related to memberships with lobbying entities that should have been recorded in Account 7300, Nonoperating Income and Expense.
- One item, totaling $900, related to the non-regulated portion of a transaction that was related to both regulated and non-regulated activities.

Account 9112 – Vehicle Expense Spread Account

- One item, totaling $93,131 (consisting of several entries for the entire audit period), related to cellular and data related costs identified for individuals that did not appear appropriate for inclusion in the costs to be cleared to Construction and Plant-Specific Expense accounts following the Vehicle Expense spread matrix. These cellular and data related costs recorded in this spread account should have been recorded in Account 6720 - General and Administrative Expense.

Account 9124 – Information Technology Expenses Spread Account

- One item, totaling $25,216 (consisting of monthly recurring entries for the entire audit period), related to an unsupported affiliate transaction for the management of Beneficiary equipment that was remitted to BBT.

Account 9750 – General and Administrative Expenses Spread Account

- One item, totaling $49, related to alcohol expenses and thus not necessary for the provision of HCP supported (regulated) services.

In addition to the above, from a review of the description of the transactions in the G/L, an additional 135 items totaling $92,500, were noted to be not necessary for the provision of HCP supported services. These included items related to maintenance and upkeep of an apartment located in Austin, TX including costs related to cleaning, yard maintenance, backup power generator, phone, cable, internet services, electricity and transportation. Other items related to sponsorships of various events, donations, gifts and flowers for various employees, employee social events, and iTunes charges.

The majority of the expense items noted as exceptions above from Accounts 6710 and 6720 did not impact HCP disbursements due to the Beneficiary exceeding the allowable threshold on the HCP Forms for Corporate Operations Expenses. It is also noted that Account 6710 – Executive and Planning Expense no longer exists as a Part 32 account as it has been eliminated by the FCC and any expenses recorded in Account 6710 are required to be recorded in Account 6720 – General and Administrative Expense. However, the reclassification of expenses from Account 6710 to Account 6720 would not impact the monetary effect noted below. The Beneficiary also established a series of 9XXX accounts that served as holding or clearing accounts for balances that were spread to various Part 32 accounts on a monthly basis using various allocation methods including payroll dollars, payroll hours or percentages and allocations based on relative account balances.

CAUSE

The preparation, review and approval processes governing the recording of expense transactions did not detect inappropriate entries to regulated expense accounts.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $43,927 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$30,259	$30,259
ICLS	$13,668	$13,668
Total	**$43,927**	**$43,927**

RECOMMENDATION

The Beneficiary should enhance the preparation, review and approval processes to properly identify, account for and allocate expenses to regulated and non-regulated activities and expense accounts for reporting in the HCP Forms.

BENEFICIARY RESPONSE

Big Bend Telephone Company, Inc. responds to each condition as follows:

Account 6610 – Sales and Marketing Expense

• Two items, totaling $3,345, related to the non-regulated portion of transactions that were related to both regulated and non-regulated activities.

Big Bend concurs with the removal and reclassification as indicated in the finding. Big Bend will take corrective measures to ensure internal accounting processes, as well as Part 64 Cost Allocation Manual (CAM) are updated to reflect this finding.

Account 6710 – Executive and Planning Expense

• Nine items, totaling $76,793, were transactions that appeared to be not necessary for the provision of HCP supported services.

Of the $76,793, Big Bend agrees that $6,656 was related to expenses not necessary for the provision of HCP supported services and will take corrective measures to update internal accounting processes as well as Part 64 CAM to reflect this amount.

Big Bend disagrees that the remaining $70,137 expenses were not necessary for provision of HCP supported services, as $50,822 and $19,315 were related to normal business operations and non-cash compensation for a Big Bend executive, respectively.

Account 6720 – General and Administrative Expenses

• One item, totaling $12,000, related to dues paid to an organization, Austin City Limits, was deemed not necessary for the provision of HCP supported services.

• Three items, totaling $67,950, were expenses related to memberships with lobbying entities that should have been recorded in Account 7300, Nonoperating Income and

Expense.

• One item, totaling $900, related to the non-regulated portion of a transaction that was related to both regulated and non-regulated activities.

Big Bend concurs with the removal and reclassification of $12,000 related to dues paid to an organization as well as the $900 related to non-regulated activities. Big Bend will take corrective measures to ensure internal accounting processes, as well as Part 64 Cost Allocation Manual (CAM) are updated to reflect this finding.

Big Bend disagrees with the reclassification of $67,950 to Account 7300, Nonoperating Income and Expense for expenses related to Texas Statewide Telephone Cooperative, Texas Telephone Association and Rural Broadband Alliance memberships dues. The FCC Public Notice released October 19, 2015 stated that "membership fees and dues in clubs or organizations" are "not necessary to the provision of supported services." In its Notice, the FCC referenced 47 CFR § 65.450, which sets out how net income of exchange carriers such as Big Bend is calculated. The FCC rules provide that the "calculation of expenses entering into the determination of net income shall include corporate operations, which are found in 47 CFR § 32.6720 (General and Administrative expenses). The FCC rules provide that G&A expenses include "maintaining relations with government, regulators, other companies and the general public." Big Bend believes membership expenses in various industry organizations are covered by this subsection.

In light of these FCC rules regarding treatment of G & A expenses, we interpret the FCC's Notice which restricts the scope of 47 CFR § 32.6720(d) by eliminating cost recovery for club and membership dues to mean dues for social clubs and organizations, not industry organizations, which we believe continue to be covered under current regulations. While we disagree with the FCC's current interpretation of the scope or applicability of its "Notice," we should also note that BBTC's expenses predate the timing of the FCC's Notice. Assuming for the sake of argument that the FCC's Notice did, in fact, prohibit cost recovery of industry organization dues, we believe those restrictions should apply prospectively. BBTC's organization dues that you have identified were paid prior to the FCC's October 19, 2015 Notice and, therefore, should not be disallowed.

Account 9112 – Vehicle Expense Spread Account

• One item, totaling $93,131 (consisting of several entries for the entire audit period), related to cellular and data related costs identified for individuals that did not appear appropriate for inclusion in the costs to be cleared to Construction and Plant-Specific Expense accounts following the Vehicle Expense spread matrix. These cellular and data related costs recorded in this spread account should have been recorded in Account 6720 - General and Administrative Expense.

Big Bend disagrees with the reclassification of $93,131 from the spread account to Account 6720 – General and Administrative Expense. As KPMG notes, these are cellular and data related costs used for normal business operations by various individuals within the organization, including outside plant and network personnel. These costs are cleared to Construction and Plant-Specific Expense accounts following the Vehicle Expense spread matrix which is based on direct labor hours of appropriate personnel utilizing the work equipment.

Account 9124 – Information Technology Expenses Spread Account

• One item, totaling $25,216 (consisting of monthly recurring entries for the entire audit period), related to an unsupported affiliate transaction for the management of Beneficiary equipment that was remitted to BBT.

Big Bend concurs with this finding. Corrective measures will be taken to ensure all appropriate supporting documentation is available in the development of affiliate transactions.

Account 9750 – General and Administrative Expenses Spread Account

• One item, totaling $49, related to alcohol expenses and thus not necessary for the provision of HCP supported (regulated) services.

Big Bend concurs with the removal and reclassification as indicated in the finding. Big Bend will take corrective measures to ensure internal accounting processes, as well as Part 64 Cost Allocation Manual (CAM) are updated to reflect this finding.

In addition to the above, from a review of the description of the transactions in the G/L, an additional 135 items totaling $92,500, were noted to be not necessary for the provision of HCP supported services.

As KPMG noted, Big Bend exceeds the allowable threshold on the HCP Forms for Corporate Operations expense. The inclusion or removal of these 135 expense items from HCP calculations would be immaterial, therefore, Big Bend will not take the time to respond to each individual item. Big Bend will continue to evaluate all expense items to ensure only expenses "necessary for the provision of supported services" are included in HCP calculations.

KPMG RESPONSE

Of the items disputed by the Beneficiary, KPMG notes the following:

- Account 6710 – Executive and Planning Expense: Of the $70,137 disputed by the Beneficiary, the $50,822 related to "normal business operations" included (a) $42,206 related to interior design and furnishing of a residence of the Big Bend Executive located in Austin, TX; (b) $4,766 related to private airplane charter service to Austin, TX; and (c) $3,850 related to rental charges for an apartment in Austin, TX. The $19,315 in "non-cash compensation" included (a) $10,633 in expenditures incurred for an overseas trip and multiple expenditures within a three week period at an auto image salon in Austin, TX; and (b) $8,682 related to a long-term hotel stay at the Four Seasons in Austin, TX. Each of the above transactions were deemed not necessary for the provision of HCP supported services.
- Account 6720 – General and Administrative Expenses: The $67,950 disputed by the Beneficiary included membership dues paid to three separate organizations that function as lobbying entities. The Beneficiary was unable to provide any documentation to support an allocation of these dues to non-lobbying activities. In addition, KPMG reiterates that the FCC's Public Notice (FCC 15-133) served to clarify existing FCC Rules related to the use of HCP support for the intended purpose and not as an introduction of new rules.
- Account 9112 – Vehicle Expense Spread Account: Cellular and data charges do not qualify as motor vehicle expenses, hence it is not appropriate to use the Vehicle Expense spread matrix to clear these costs to the various regulated expense accounts.

Finding # HC2016BE028-F06: 47 C.F.R. Section 54.903(a)(4) (2013) - Inaccurate Revenues

CONDITION

SLC revenues reported on Form 509 did not agree to source documentation and were overstated by $1,397 and ISDN revenues reported on Form 509 were overstated by $1,812.

CAUSE

The Beneficiary's processes and procedures governing the preparation and review of the Form 509 did not identify the submission of erroneous information.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an under-disbursement of $3,209 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
ICLS	($3,209)	($3,209)
Total	**($3,209)**	**($3,209)**

RECOMMENDATION

The Beneficiary should perform a more effective review and reconciliation of historical data between the source documentation and the HCP Forms prior to filing.

BENEFICIARY RESPONSE

> Big Bend Telephone, Co. has implemented procedures to reconcile End User SLC and ISDN revenues per the general ledger with End User SLC revenue reported on Form 509.

Finding # HC2016BE028-F07: 47 C.F.R. Section 32.12(b) (2013) - Inaccurate Revenues

CONDITION

ARC revenues reported on the CAF ICC True-up Form for Program Year 2013 were understated by $2,337.

CAUSE

The Beneficiary's processes and procedures governing the preparation and review of the CAF ICC Form did not identify the submission of erroneous information.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $2,337 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
CAF ICC	$2,337	$2,337
Total	**$2,337**	**$2,337**

RECOMMENDATION

The Beneficiary should perform a more effective review and reconciliation of historical data between the source documentation and the HCP Forms prior to filing.

BENEFICIARY RESPONSE

> Big Bend Telephone, Co. has implemented procedures to reconcile ARC revenues per the general ledger with ARC revenues reported on the CAF ICC True-up form.

Finding # HC2016BE028-F08: 47 C.F.R. Section 36.611(h) (2013) - Inaccurate Loop Counts

CONDITION

The Total Loops, Category 1.3 Loops and Access Lines submitted on the HCP Forms did not reconcile to the source documentation as follows:

2014-1 HCL Form

Category 1.3 Loops

As Filed: 5,286

Source Documentation: 5,288

Difference: (2)

Total Loops

As Filed: 5,311

Source Documentation: 5,313

Difference: (2)

2013 FCC Form 507

Access Lines

As Filed: 4,938

Source Documentation: 4,940

Difference: (2)

CAUSE

The preparation, review and approval processes over line counts for the 2014-1 HCL Form and FCC Form 507 filings did not detect the submission of inaccurate line count information.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $1,020 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$1,020	$1,020
Total	**$1,020**	**$1,020**

RECOMMENDATION

The Beneficiary should enhance its preparation, review and approval processes over the reporting of appropriate line count data, including the performance of a reconciliation of all line count data to underlying support documentation as of December 31 to ensure amounts are reported in HCP filings in compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

Big Bend Telephone Company, Inc. has established review and reconciliation procedures to ensure accurate submission of line counts.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. Section 36.151(c) (2013)	"In the separation of the cost of cable and wire facilities among the operations, the first step is the assignment of the facilities to certain categories. The basic method of making this assignment is the identification of the facilities assignable to each category and the determination of the cost of the facilities so identified. Because of variations among companies in the character of the facilities and operating conditions, and in the accounting and engineering records maintained, the detailed methods followed, of necessity, will vary among the companies. The general principles to be followed, however, will be the same for all companies."
#1	47 C.F.R. Section 36.153(a)(1)(i)(A) (2013)	"By section of cable, uniform as to makeup and relative use by categories. From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved, for each category. The corresponding percentages of use, or reservation, are applied to the cost of the section of cable, i.e., sheath meters times unit cost per meter, to obtain the cost assignable to each category."
#1	47 C.F.R. Section 36.153(a)(1)(ii)(B) (2013)	"It will be desirable in some cases to determine the amount assignable to a particular category by deducting from the total the sum of the amounts assigned to all other categories."
#2	47 C.F.R. Section 32.27(c)(2) (2013)	"*Ceiling.* When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive."
#3	47 C.F.R. Section 32.2000(g)(2)(iii) (2013)	"Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month."
#4	47 C.F.R. Section 64.901(a),(b)(2)-(3) (2013)	"Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein…. Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs.

Finding	Criteria	Description
		Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities."
#4	47 C.F.R. Section 32.14(c) (2013)	"In the application of detailed accounting requirements contained in this part, when a regulated activity involves the common or joint use of assets and resources in the provision of regulated and non-regulated products and services, companies shall account for these activities within the accounts prescribed in this system for telephone company operations. Assets and expenses shall be subdivided in subsidiary records among amounts solely assignable to nonregulated activities, amounts solely assignable to regulated activities, and amounts related to assets used and expenses incurred jointly or in common, which will be allocated between regulated and nonregulated activities."
#5, #7	47 C.F.R. Section 32.12(b) (2013)	"The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission."
#5	47 C.F.R. Section 54.7(a) (2013)[3]	"A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."
#5	*All Universal Service High-Cost Support Recipients Are Reminded That Support Must Be Used For Its Intended Purpose*, WC Docket Nos. 10-90 and 14-58, Public	"Under Federal law, high-cost support provided to an ETC must be used 'only for the provision, maintenance and upgrading of facilities and services for which the support is intended'…[T]he *non-exhaustive* list of expenditures that are not necessary for the provision of supported services and therefore may not be recovered through universal service support [includes]: Charitable donations; Entertainment; Gifts to Employees; Membership fees and dues in clubs and organizations; Sponsorships of conferences or community events; and Personal expenses of employees."

[3] *See also* 47 U.S.C. § 254(e).

Finding	Criteria	Description
	Notice, 30 FCC Rcd 11821 (2015)	
#6	47 C.F.R. Section 54.903(a)(4) (2013)	"Each rate-of-return carrier shall submit to the Administrator on December 31st of each year the data necessary to calculate a carrier's Interstate Common Line Support, including common line cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line Interstate Common Line Support amounts in the final two quarters of the following calendar year to the extent of any differences between the carrier's ICLS received based on projected common line cost and revenue data and the ICLS for which the carrier is ultimately eligible based on its actual common line cost and revenue data during the relevant period.."
#8	47 C.F.R. Section 36.611 (2013)	"In order to allow determination of the study areas and wire centers that are entitled to an expense adjustment pursuant to § 36.631, each incumbent local exchange carrier (LEC) must provide the National Exchange Carrier Association (NECA) (established pursuant to part 69 of this chapter) with the information listed for each study area in which such incumbent LEC operates, with the exception of the information listed in paragraph (h) of this section, which must be provided for each study area and, if applicable, for each wire center, as defined in part 54 of this chapter, and each disaggregation zone as established pursuant to § 54.315 of this chapter. This information is to be filed with NECA by July 31st of each year."
#8	47 C.F.R. Section 36.611(h) (2013)	"For incumbent local exchange carriers subject to §36.601(a) of this subpart, the number of working loops for each study area. For non-rural telephone companies, the number of working loops for each study area and for each wire center. For universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing."

CONCLUSION

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 applicable to the disbursements made from the HCP during the twelve-month period ended December 31, 2015 identified miscategorized C&WF, improper affiliate transactions, inaccurate depreciation calculation, improper allocation methodology, misclassified expenses, inaccurate revenues (SLC, ISDN and ARC), and inaccurate loop count findings. Detailed information relative to the findings is described in the Findings, Recommendations and Beneficiary Responses section above.

The combined estimated monetary impact of these findings is as follows:

Fund Type	**Monetary Impact Overpayment (Underpayment)**
HCL	$607,170
ICLS	$ 87,413
CAF ICC	$ 2,337
Total Impact	**$696,920**

KPMG recommends that the Beneficiary:

- Enhance the preparation, review and approval processes governing the C&WF categorization study and ensure all routes within the network are factored in the study.
- Ensure that the FDC analysis established to determine the monthly lease payments for the various assets leased from its affiliate is updated periodically (at least annually).
- Enhance the preparation, review and approval processes governing the calculation of depreciation and the use of proper rates to ensure compliance with FCC Rules and Orders.
- Establish, document and implement procedures to address the preparation, review and approval processes related to the Part 64 cost allocation of joint and common costs to ensure compliance with FCC Rules and Orders.
- Enhance the preparation, review and approval processes to properly identify and account for regulated expenses.
- Perform a more effective review and reconciliation of historical data between the source documentation and the HCP Forms prior to filing.
- Enhance its preparation, review and approval processes over the reporting of appropriate line count data, including the performance of a reconciliation of all line count data to underlying support documentation as of December 31 to ensure amounts are reported in HCP filings in compliance with FCC Rules and Orders.

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

INFORMATION ITEM

High Cost Support Mechanism Business Update

Information Presented:

This information item provides the High Cost & Low Income (HCLI) Committee with a quarterly status report on the operation of the High Cost (HC) Support Mechanism for 3rd Quarter 2017 (3Q2017). The update includes information on ongoing High Cost operations, as well as major High Cost initiatives.

Discussion:

Program Highlights — 3Q2017

- On August 28, 2017, USAC launched the High Cost Universal Service Broadband (HUBB) State Access tool, which provides state commissioners and the Federal Communications Commission (FCC) with the deployed location data currently available in the online HUBB Portal. USAC performed significant outreach to state commissions ahead of the launch to get them set up in E-File and ensure access to the new tool.

- On September 6, 2017, the FCC released an Order,[1] which granted a waiver of the filing deadline for states, or Eligible Telecommunications Carriers (ETCs) not subject to jurisdiction of a state, to certify use of high cost support under section 54.314 of the FCC's rules. The deadline was extended from October 1, 2017 to November 17, 2017.

- As of September 2017, USAC has disbursed final Mobility Fund (MF) payments totaling $110.6 million, completing Mobility Fund disbursements for 91 percent of Mobility Fund Phase I (MF I) winning bids and 64 percent of Tribal Mobility Fund Phase I winning bids.

- The High Cost team hosted a webinar with the National Association of Regulatory Utility Commissioners (NARUC) to explain the HUBB to state utility commissioners and to demo the new state access tool that provides access to broadband deployment data for their states from the HUBB by filing year and fund. The webinar also covered geolocation best practices and pitfalls and talked about the public maps that will be developed using HUBB data. More than 70 state officials attended the session.

[1] *Connect America Fund*, WC Docket No. 10-90, Order, 2017 WL 3953374 (2017).

- See **Attachment A** for additional operational metrics.

High Cost Support Mechanism Operational Update

2018 High Cost Budget

The proposed 2018 HC Budget reflects our plans to continue investing in existing operations and new FCC Modernization work. The critical success factor for the HC Program is our continued commitment to invest in people, process improvement, innovation and the selective use of technology. For the 2018 program budget year, HC plans reflect an investment of approximately $45 million to plan, build, implement, operate, and improve the Program. The 2018 HC Plan of Record (POR) will require significant investment in our team members through continued career pathing, use of developmental opportunities, and training. In addition, the HC POR identifies targeted investment in HC carrier communications ensuring our goals and outcomes are aligned to meet key stakeholder expectations.

In 2018, we will continue to push forward with the planning, designing, development, service transition and implementation of the MF Phase II Challenge Process and Connect America Fund (CAF) Phase II Auctions. New 2018 work will also include the continued management and support of the FCC MF Phase II program, CAF Broadband Loop Support (BLS) and Alaska Plan Challenge Processes, CAF Phase II Auction, HUBB system modifications, HC form updates, business analytics/reporting and other initiatives. As the MF Phase II Challenge process system comes to an end, we have also made provisions for new work related to information technology (IT) Operations and Maintenance (O&M) for MF II Challenge and other HC systems and processes. We have also allocated funding to support any special FCC mandated investigations or audits.

Finally, a HC high performance organization must be fostered to ensure repeatable and sustained success. To build and develop a high performance organization, HC continues to meet with each team member, working in collaboration with the USAC Human Resources team, to develop individual career pathing plans focused on building and retaining high performance team members at all levels in the organization. In addition, HC is investing in developing and implementing effective communications plans to ensure HC outcomes are aligned with stakeholder expectations. Specifically, the HC team will invest in targeted events communicating upcoming wireline and wireless requirements primarily working through industry groups. Given the continued success of the HUBB, this targeted investment will pay dividends as we continue to collect existing location information and solicit carrier input supporting the design of new and enhancement of the HC modernization systems.

Disbursements

High Cost disbursed approximately $2.72 billion in support through July 2017 (see details below). This includes, $1.04 billion to 187 Price Cap study area codes (SACs), $1.3 billion to 1,095 Rate of Return SACs, and $354 million to 377 to competitive eligible telecommunications carrier (CETC) SACs.

Carrier Regulation Type	Total Amount	Total SACs
Price Cap (PC)*	$ 1,041,895,166.41	187
Rate of Return (ROR)	$ 1,320,703,003.56	1,095
Competitors (CETC)	$ 353,991,743.92	377
Total	**$ 2,716,589,913.89**	**1,659**

Program Budget
The annual $4.5 billion cap for High Cost disbursements remains in effect until the Commission takes further action. USAC continues to monitor the annual budget and notify the FCC when demand over four consecutive quarters (exclusive of demand for programs funded by the reserve[2]) is projected to exceed $4.5 billion. Disbursements have never exceeded the quarterly amount. USAC will continue to monitor actual and projected disbursement activity (segregating demand for components of support funded from the Reserve from other support components).

Beginning with the 1Q2018 Demand Filing, USAC will project demand for the High Cost program based on actual projected program demand. Quarterly collections will not be capped at $1.125B, however demand for 4 consecutive quarters exclusive of demand funded by reserve should not exceed $4.5B. USAC will not collect funds for incremental Alternative Connect America Model (A-CAM) support which will be pre-funded on December 31, 2017 with $1.768 billion from the cash balance in the High Cost Account. USAC will monitor High Cost Account cash balances to ensure funding is sufficient to establish the reserve.

Additionally, as required by the *Rate-of-Return Reform Order*,[3] USAC is required to calculate total support available for distribution to Rate of Return carriers. In order to remain within the annual rate of return budget, USAC applies the FCC Budget Control Mechanism (BCM) to reduce support for carriers subject to High Cost Loop Support (HCLS) (including Safety Net Additive (SNA) and Safety Valve Support (SVS)) and CAF BLS support. The BCM calculation limits the Rate of Return support to $2 billion annually. Additionally, upon FCC review and approval, in November 2017 (October 2017 disbursements), USAC will process BCM prior period adjustments for the period of September 2016 through June 2017 as a result of changes to the BCM process beginning July 2017. These changes to the BCM conform the application of the BCM to true-ups for past periods.

<u>Certification Compliance</u>

FCC Form 481

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[2] Rural Broadband Experiments (RBE), Alternative Connect America Model (A-CAM), CAF Phase II Transition, CAF Phase II Lump Sum, Mobility Fund Phase I, CAF Phase I Round 1 and Round 2
[3] *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087 (2016) (*Rate-of-Return Reform Order*).

The FCC Form 481 collects financial and operational data from High Cost recipients in accordance with 47 C.F.R. § 54.313 and from Lifeline recipients in accordance with 47 C.F.R. § 54.422. ETCs are required to submit the form by July 1st to USAC, the FCC, state commissions, tribal authorities and other relevant authorities. For the July 3, 2017 deadline, 1,754 SACs or 99.66 percent of carriers, timely filed and certified the FCC Form 481 in USAC systems.

FCC Form 481 In-Depth Validations (IDVs)
Upon the conclusion of the July filing, FCC Form 481 data is extracted from the system to begin a focused review of line items where responses indicate potential non-compliance. The review is divided up into distinct three phases. The first phase is to identify potential exceptions, while the second phase focuses on reviewing high priority sections of the FCC Form 481 and the third phase focuses on reviewing low priority sections. The first phase is completed within 30 days of receipt of the extracted data which is within the division's goals. Focus on high-priority review items is currently underway with an emphasis on reviewing approximately 900 financial statement attachments submitted by privately-held rate of return providers.

FCC Form 690
The FCC Form 690 collects drive test data and certifications from High Cost recipients in accordance with 47 C.F.R. § 54.1009. ETCs receiving Mobility Fund Phase I support are required to submit the form by July 3, 2017 to USAC. One-hundred percent of Mobility carriers timely filed their annual FCC Form 690.

<u>Broadband Deployment Compliance</u>

Wireline Verifications
Carriers that elect to participate in certain CAF programs are required to report the location where broadband is being deployed.[4] Millions of locations are expected to be submitted to USAC, and the High Cost division is responsible for verifying that carriers build broadband networks in compliance with FCC rules and requirements. As part of our ongoing efforts to improve the verification process, the High Cost team has engaged Econometrica, in coordination with USAC and the Commission, to develop statistical sampling methodologies in support of testing location data. Sampling plans are currently being developed for CAF Phase I Incremental Support (CAF Phase I), Rural Broadband Experiments (RBE), and CAF Phase II.

[4] USAC performs its compliance test work after a participating carrier submits data identifying the locations where the carrier deployed broadband. USAC's compliance test work involves three distinct stages. First, USAC reviews the certifications and compiles the number of locations to confirm the submitted information substantiates that the entity completed the required deployment. Second, USAC validates the eligibility of the locations reported. Third, USAC selects a sample of locations for additional testing and requests supporting documentation from the carriers to further verify compliance. The first and second stages are completed for all location data as soon as the data is submitted and, in some instances, these stages are performed automatically by USAC's HUBB portal. The third stage is performed after the first and second stages are complete and only for only a sample of the location data.

In July 2017, CAF Phase I and RBE participants reported location data via the FCC Form 481. The High Cost team is currently validating and verifying the data submitted for CAF Phase I and RBE locations through a manual review. During the remainder of 2017, High Cost staff will continue validation and verification procedures for CAF Phase I and continue verification test work for RBE. The first RBE verification was initiated in September and is expected to be completed by November.

Recipients of CAF Phase II Model-based Support (a/k/a Connect America Cost Model (CACM)), A-CAM, and CAF-BLS report this data via the HUBB, which automatically performs the validation procedures. RBE location data will be submitted and validated in the HUBB beginning in March 2018. Carriers that submitted CAF Phase II locations through the FCC Form 481 last year were requested to refile the location data through the HUBB this year. As of September 2017, approximately 811,600 CAF Phase II locations have been certified in the HUBB and all locations deployed in 2016 must be reported by July 3, 2017. Deployment required by the 2017 milestone date (40 percent completion) for price cap carriers will be reported by March 2018. In addition, for Rate of Return carriers, approximately 2,516 A-CAM locations and 5,809 CAF-BLS locations have been certified in the HUBB as of September 2017.

Mobility Verifications

Recipients of the Mobility Fund Phase I program are required to report drive test or scattered site test data for all eligible road miles, including the three required FCC key performance indicators (KPI) of download speed, upload speed, and latency, with coordinates, of where wireless service has been deployed using USF dollars via the FCC Form 690. The High Cost program is responsible for ensuring compliance for the data submitted by the carriers. USAC first performs a desk validation of the data and subsequently has engineer-contractors conduct an on-site drive test (a/k/a site visit verifications). As of September 2017, High Cost has completed site visit verifications for 40,638 road miles of the total 63,698 awarded road miles. For Tribal Mobility, 38,352 of the total population of 56,932 were verified.

<u>Governance and Cost Controls</u>

During 3Q2017, the High Cost division continued to refine a standardized process for the intake of new FCC orders and projects that will enable the operations to better manage and collaborate with key project stakeholders from the inception of an order to the final implementation. This process will ensure proper and accurate management of scope, time and cost of all HC projects and FCC Orders and instructions. The process is being enhanced with formal governance and change control processes. The process is currently in use with the recent release of the *Mobility Fund Phase II Order*.[5]

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[5] *Connect America Fund Universal Service Reform – Mobility Fund*, WC Docket No. 10-90, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 32 FCC Rcd. 2152 (2017) (*Mobility Fund Phase II Order*).

The High Cost division has also implemented an executive steering committee to ensure that all activities supporting operations, systems, processes, and practices are aligned with the USAC's corporate governance structure. Similar meetings are held at a regular cadence to inform our FCC colleagues of progress and is critical in ensuring the appropriate alignment between USAC and the FCC.

<u>Appeals</u>

In August 2016 the High Cost division received two appeals of audits conducted by external auditors as part of the Beneficiary and Contributor Audit Program (BCAP). The High Cost division is reviewing and requesting additional documentation, as necessary, from external auditors to resolve the appeals. Currently, one draft appeal decision letter is under initial review by the USAC Office of General Counsel (OGC), pending receipt of the additional information from the external auditors. High Cost staff is working closely with and will continue to engage USAC's OGC, Internal Audit Division, and external auditors, as needed, to resolve the outstanding issues.

<u>Training & Outreach</u>

CAF II HUBB Filing
The High Cost division conducted extensive stakeholder outreach in 3Q2017 to assist the dozen Price Cap carriers that faced a July 3rd deadline to file CAF Phase II deployment data with the HUBB. Even after months of industry outreach and weeks of one-on-one engagement with CAF II carriers leading up the deadline, we still faced a flurry of last-minute questions and a handful of technical issues to troubleshoot. Once the deadline passed, we followed up with the carriers to flag incomplete and/or incorrect data submissions (such as non-existent deployment dates and missing certifications) and help them scrub and fix their data. We were also in extensive contact with the FCC in the weeks following the July deadline to help the Commission determine whether any carriers had missed the deadline and whether some qualify for a brief, one-time grace period.

Rate-of-Return HUBB Filing
The focus of the HUBB outreach now shifts to carriers participating in funds that have a March 2018 filing deadline (including A-CAM, CAF-BLS, Alaska Plan, and RBE). High Cost is presenting at several important industry conferences (WTA Fall meeting, NTCA Fall Conference, National Exchange Carrier Association, Inc. Expo) and hosting at least one Webinar to reach these carriers in Q3 and Q4. The presentations include a HUBB demo and geolocation guidance. Outreach activities also include updates on HUBB features and functionality, filing instructions, etc. through email communications, user guides and detailed website content available on the HUBB resources page.

HUBB State Access Tool
In late August, High Cost launched a new tool that gives state utility commissions access to broadband deployment data in the HUBB for their states by filing year and fund. The launch came after weeks of outreach to all the state commissions to get them set up in the

E-File system so that they can access the new tool. High Cost also reached out to the state commissions following the launch to make them aware of the tool, ensure they understand what data is available to them, and educate them about geolocation practices and pitfalls. Outreach activities included email communications and a Webinar jointly hosted with NARUC.

High Cost Open Data Initiative
High Cost worked closely with the USAC Open Data team in Q3 to assist with development of the High Cost Open Data initiative, an interactive map displaying High Cost disbursement data by fund at a state level. We led outreach efforts to engage the FCC in the project and ensure that the Commission's suggestions and concerns are addressed. We are also helping draft content for the project (including a High Cost overview and fund descriptions) and will help promote the new map to key industry and civil society stakeholders after it launches near the end of Q3. We are including an overview of the project in our industry presentations in Q3 and Q4.

Mobility Fund Phase II Challenge Process Outreach
High Cost worked closely with USAC's User Experience (UX) team, OGC, and the FCC in Q3 to secure the requisite Paperwork Reduction Act (PRA) approval to conduct MF Phase II stakeholder outreach. We will be working through several key trade associations — CTIA, the Competitive Carriers Association and the Rural Wireless Association — to conduct much of this outreach, which will inform the design of the MF II Challenge Process portal. Outreach activities will include focus groups and usability testing.

INFO Item #iHCLI02
10/23/17

Attachment A

HC Charts - Business Metrics:

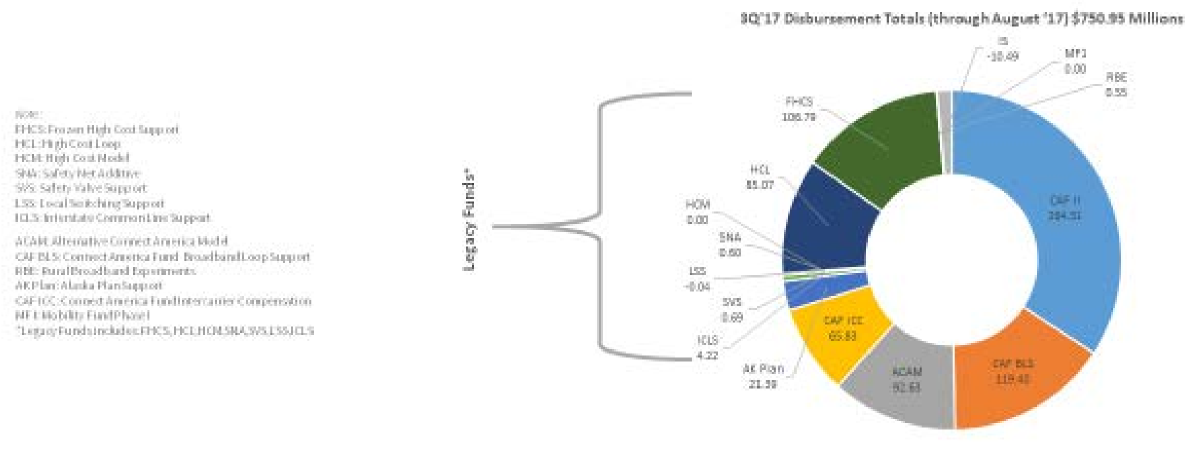
Figure 1

Note: As of this report, CAF I location validations and cycle time are flagged as yellow due to pending completion of the second level of validations that are performed against the (National Broadband Map). Additionally, appeals are flagged as red because the age of appeals has exceeded the 90 day target.

Figure 2

Program Integrity: Disbursements

Program Goals: Monitor and implement controls for High Cost funds, audits, improper payments and validate and verify network build-outs.



Source: www.usac. http://www.usac.org/hc/tools/disbursements/default.aspx

Figure 3- Mobility Fund Phase I Verifications

High Cost Program Outcome: Network Build-out/Services Offered – Road Miles (Mobility Fund Phase I)

GOAL #1: Expand broadband and maintain voice and broadband coverage by collaborating with stakeholders to achieve a shared goal of ensuring universal availability of voice and broadband, both fixed and mobile, that is reasonably comparable to what is available in urban areas.

Summary & Analysis	Insights & Action Items
Actual Road Miles Verified • No new road miles were verified in 3Q 2017. • High volume of submissions led to an increase in verifications in 3Q 2016 and 4Q 2016.	• Road mile verifications in upcoming quarters will increase in small increments due to completion of network build-outs by carriers.

Figure 4

Network Build-out/Services Offered – Wireline (locations)

GOAL #1: Expand broadband and maintain voice and broadband coverage by collaborating with stakeholders to achieve a shared goal of ensuring universal availability of voice and broadband, both fixed and mobile, that is reasonably comparable to what is available in urban areas.

				Location Milestones Expected (cumulative)										
Fund	Total Obligations	Submitted Locations (Sept. 2017)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Program Total
ACAM	736,426	2,516					294,570	368,213	441,856	515,498	589,141	662,783	736,426	736,426
CAF 1	638,728	524,789	474,893	491,176										524,789
CAF 2	3,627,464	811,600			1,450,986	2,176,478	2,901,971	3,627,464						3,627,464
RBE	36,692	10,215	1,692	3,495	17,335	31,188	33,000	36,692						36,692
BLS	117,078	5,809						117,078						117,078
Total	5,156,388	1,354,929												5,042,449*

*Difference between total obligations and program totals is due to CAF I program concluding where one carrier did not meet its broadband deployment obligations.

Figure 5

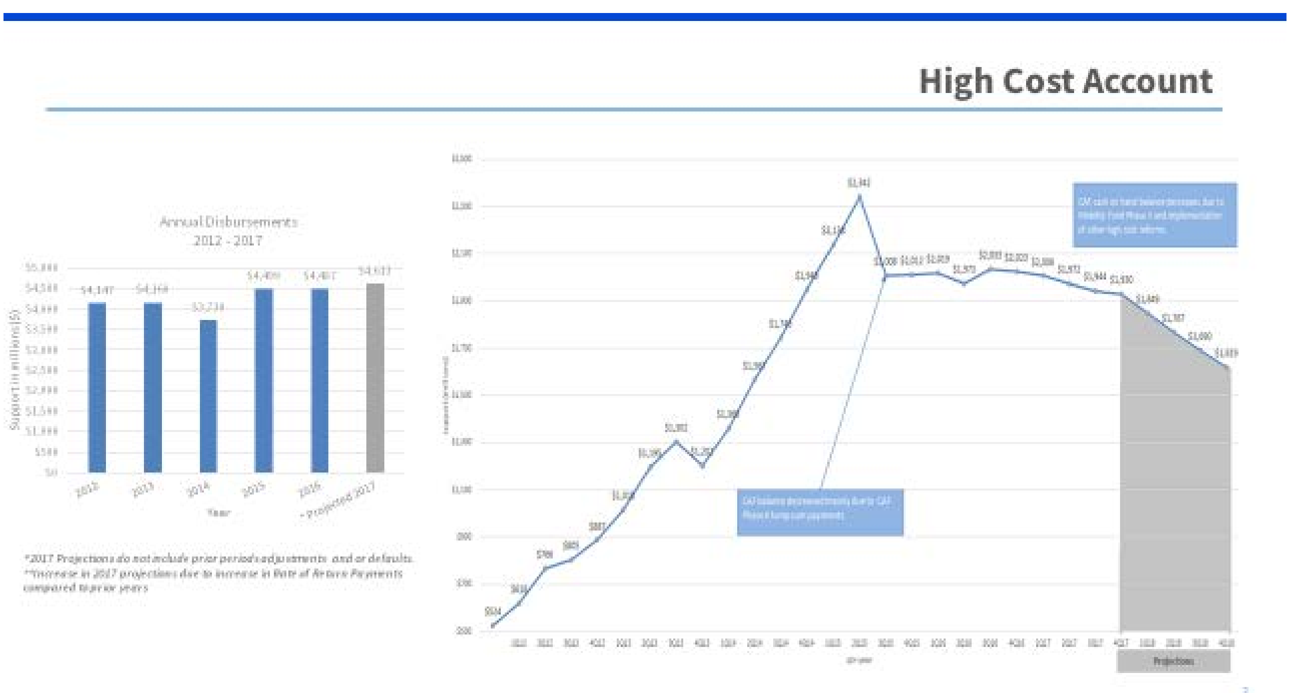


Figure 6

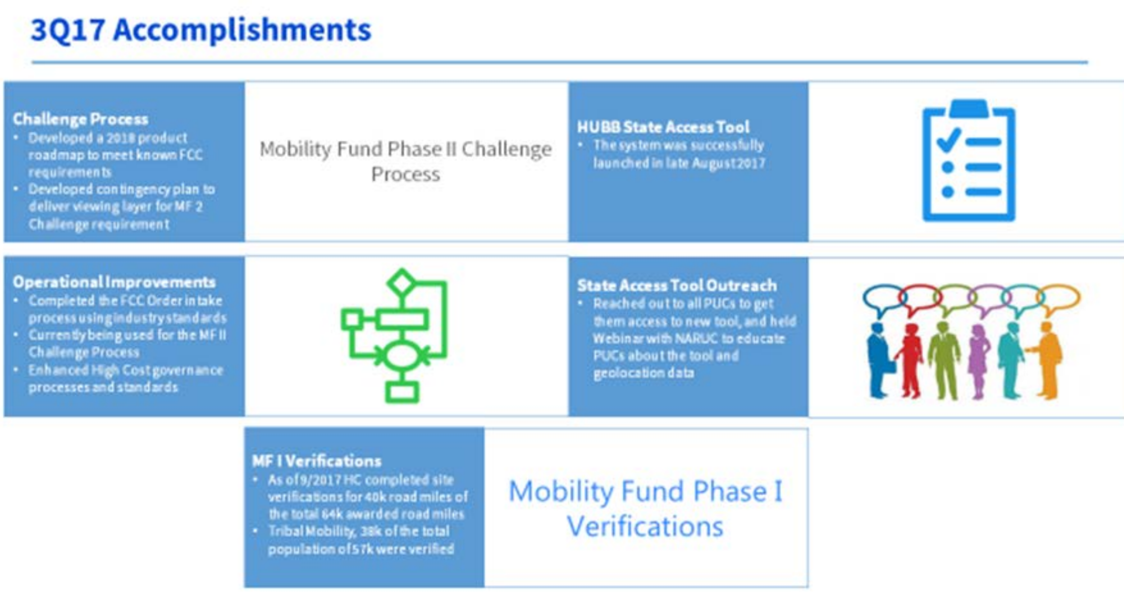
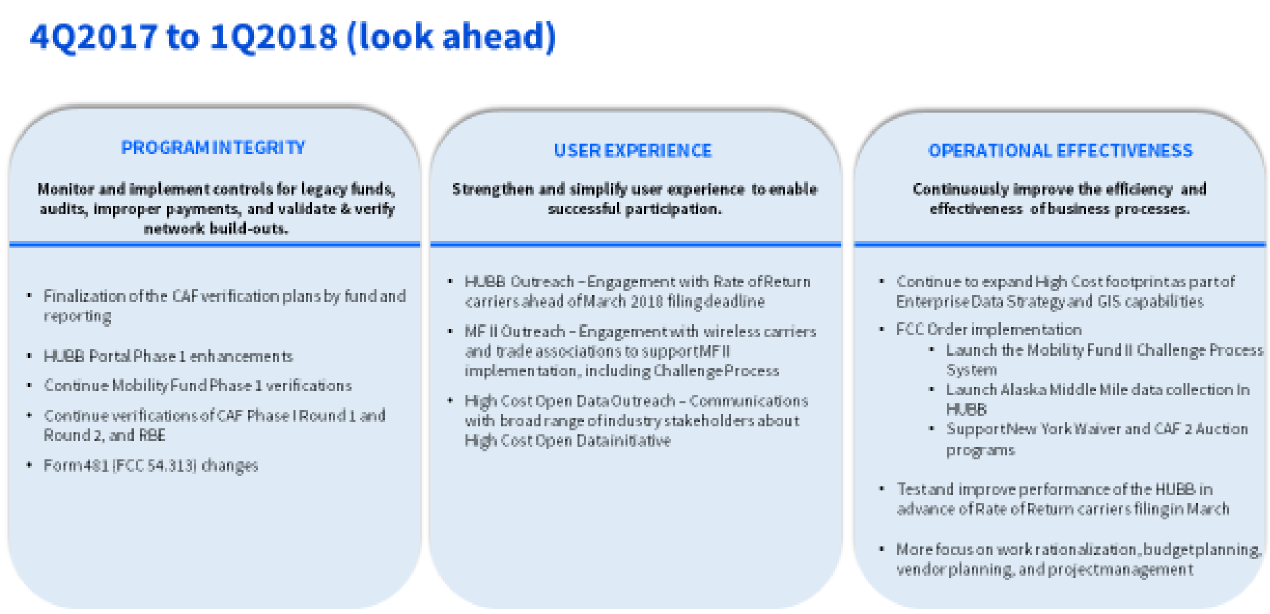


Figure 7



High Cost

HCLI Committee Meeting

iHCLI02A

October 23, 2017

Universal Service Administrative Co.

High Cost Scorecard – Q3 2017

Briefing book excludes all materials discussed in Executive Session

Aggregated performance is the composite of multiple metrics

G On-track | Y At-Risk | R Off-track | NA Future Metric

PROGRAM OUTCOMES

Performance Measurement Model

GOAL #1: Expand broadband and maintain voice and broadband coverage by collaborating with stakeholders to achieve a shared goal of ensuring universal availability of voice and broadband, both fixed and mobile, that is reasonably comparable to what is available in urban areas.

Measurement Category	Target	Status
Network Build out/Services Offered	Mobility Road Miles Reported: 90% Mobility Population Reported: 69%	G
Validations (CAF Phase I, CAF Phase II, RBE)	Location Deployment Obligations: 638,728 (CAF Phase I); 3,627,464 (CAF Phase II); 36,692 (RBE) Total Locations Received to Date: 524,789 (CAF Phase I); 811,600(CAF Phase II); 10,215 (RBE)	Y
Attest: % Carriers attesting to Urban/Rural Rate Comparability	Voice Rate Certification: 100% (99.94% actual) Broadband Rate Certification: 100% (96.23% actual)	G

OPERATIONAL MEASURES

PROGRAM INTEGRITY

Monitor and implement controls to assess and collect contributions

Measurement Category	Target	Status
Improper Payments Rate	< 1%	NA
Disbursements	<= 4.5 billion	G
Audits	Completion Time: 10 days	G

USER EXPERIENCE

Strengthen and simplify user experience to enable successful participation

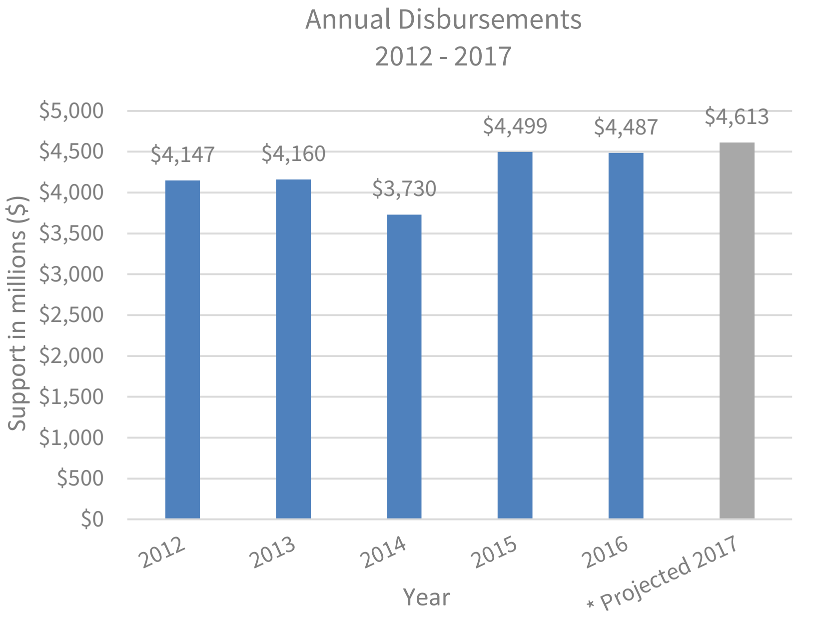
Measurement Category	Target	Status
Form Filing Time	FCC Form 481: 90 day window FCC Form 690: 90 day window	G
Forms / Certification	Form 481 - Volume: 1,754 Target: 100% Actual: 99.66% Form 690 - Volume: 549 Target: 100% Actual: 100% 54.316 - Volume: 122 Target: 100% Actual: 99.19%	G
Technology: Severity 1	**0 Outages (*as target*)	G

OPERATIONAL EFFECTIVENESS

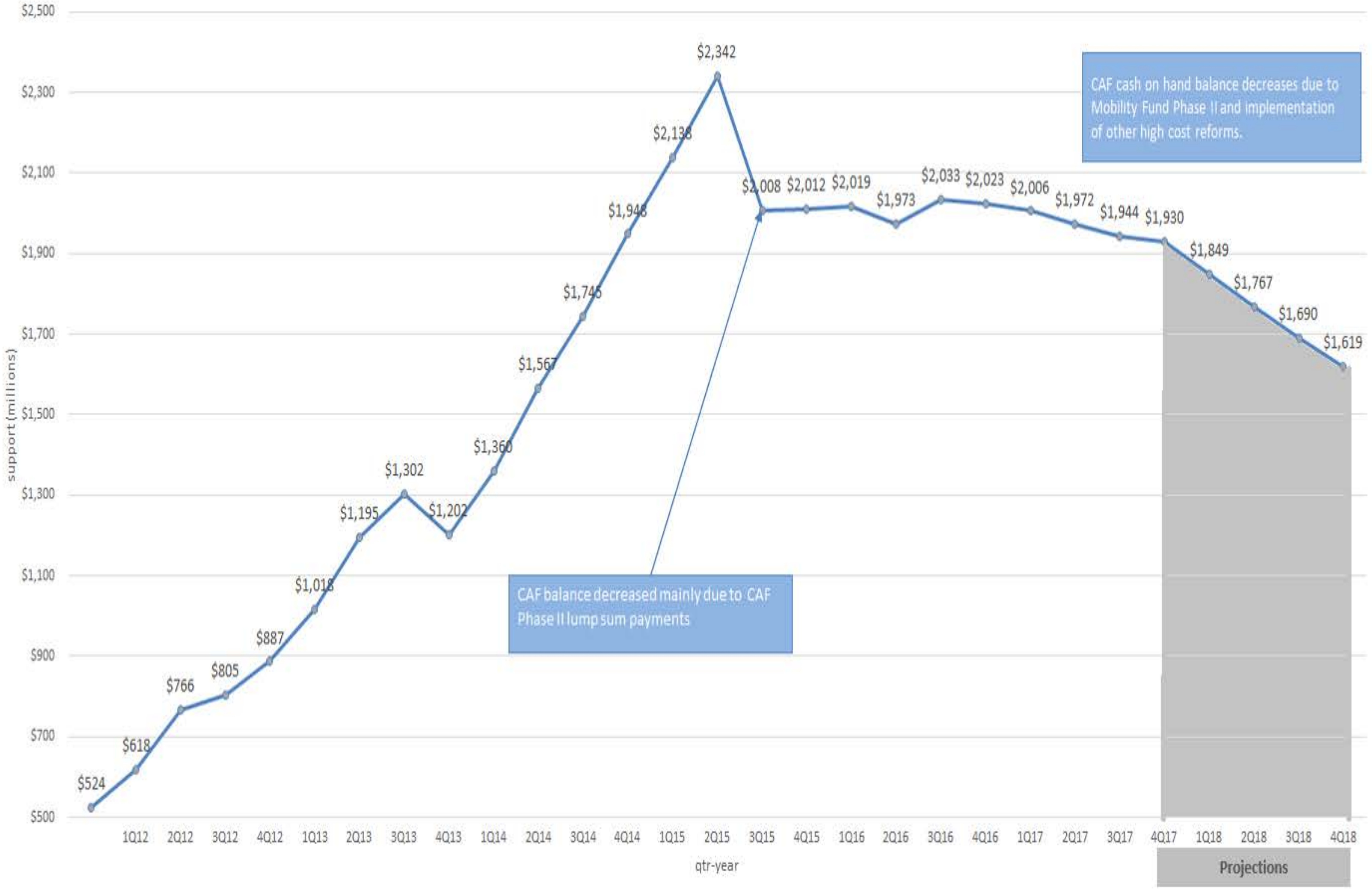
Improve efficiency and improve business process

Measurement Category	Target	Status
Cycle Time	Mobility Desk Ver.: 30 days Mobility Site Ver.: 45 days	G
	CAF Phase I locations: 60 days CAF Phase II locations : 10 days	Y
Efficiency (minimize expenses)	<1%	G
Customer Service	Aggregated Performance	G
Appeals	Completion Time: 90 days	R
Technology	System Uptime: 99%	G
Cycle Time for Form 481	Analysis Phase: 30 days Detail Phase: 90 days	G

High Cost Disbursements and Account



**2017 Projections do not include prior periods adjustments and or defaults.*
***Increase in 2017 projections due to increase in Rate of Return Payments compared to prior years*

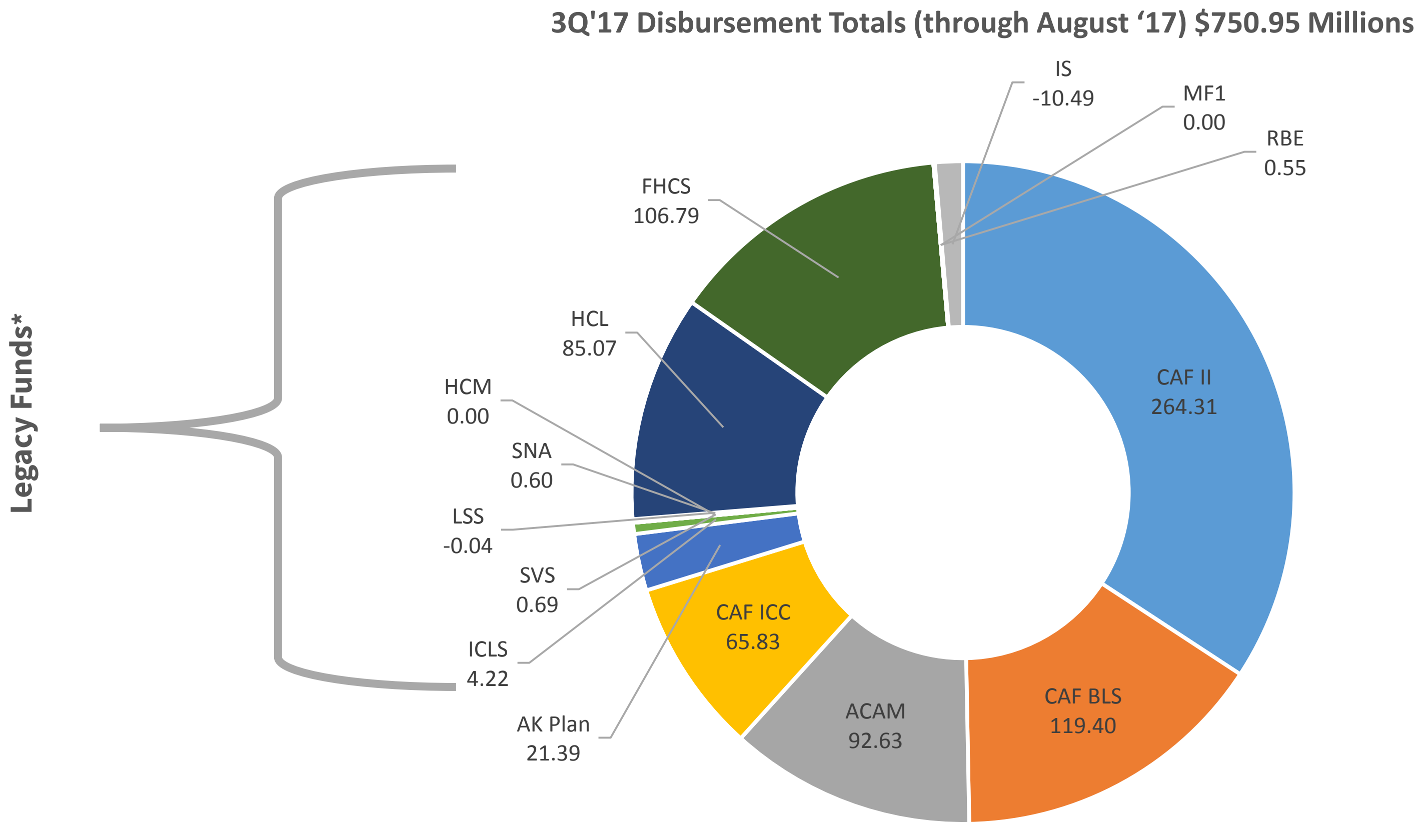


Program Integrity: Disbursements

Program Goals: Monitor and implement controls for High Cost funds, audits, improper payments and validate and verify network build-outs.

Note:
FHCS: Frozen High Cost Support
HCL: High Cost Loop
HCM: High Cost Model
SNA: Safety Net Additive
SVS: Safety Valve Support
LSS: Local Switching Support
ICLS: Interstate Common Line Support

ACAM: Alternative Connect America Model
CAF BLS: Connect America Fund Broadband Loop Support
RBE: Rural Broadband Experiments
AK Plan: Alaska Plan Support
CAF ICC: Connect America Fund Intercarrier Compensation
MF I: Mobility Fund Phase I
*Legacy Funds includes: FHCS, HCL,HCM,SNA,SVS,LSS,ICLS

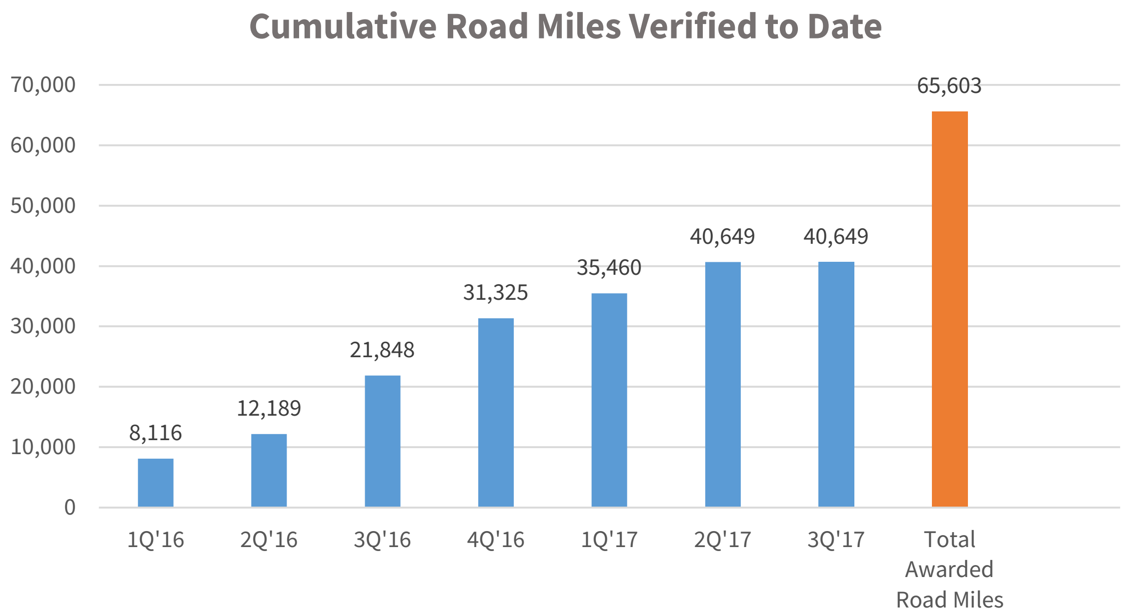


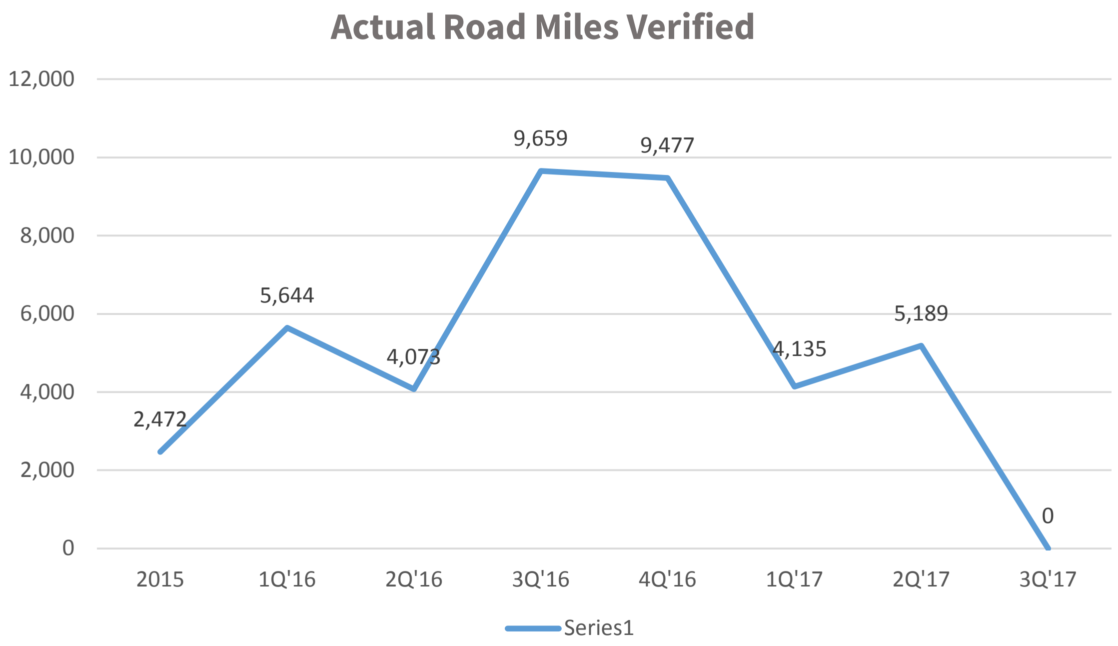
Source: www.usac. http://www.usac.org/hc/tools/disbursements/default.aspx

High Cost Program Outcome: Network Build-out/Services Offered – Road Miles (Mobility Fund Phase I)

GOAL #1: Expand broadband and maintain voice and broadband coverage by collaborating with stakeholders to achieve a shared goal of ensuring universal availability of voice and broadband, both fixed and mobile, that is reasonably comparable to what is available in urban areas.

Summary & Analysis	Insights & Action Items
Actual Road Miles Verified • No new road miles were verified in 3Q 2017. • High volume of submissions led to an increase in verifications in 3Q 2016 and 4Q 2016.	• Road mile verifications in upcoming quarters will increase in small increments due to completion of network build-outs by carriers.





Network Build-out/Services Offered – Wireline (locations)

GOAL #1: Expand broadband and maintain voice and broadband coverage by collaborating with stakeholders to achieve a shared goal of ensuring universal availability of voice and broadband, both fixed and mobile, that is reasonably comparable to what is available in urban areas.

			Location Milestones Expected (cumulative)											
Fund	Total Obligations	Submitted Locations (Sept. 2017)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Program Total
ACAM	736,426	2,516					294,570	368,213	441,856	515,498	589,141	662,783	736,426	736,426
CAF 1	638,728	524,789	474,893	491,176										524,789
CAF 2	3,627,464	811,600			1,450,986	2,176,478	2,901,971	3,627,464						3,627,464
RBE	36,692	10,215	1,692	3,495	17,335	31,188	33,000	36,692						36,692
BLS	117,078	5,809						117,078						117,078
Total	5,156,388	1,354,929												5,042,449*

*Difference between total obligations and program totals is due to CAF I program concluding where one carrier did not meet its broadband deployment obligations.

3Q17 Accomplishments

Challenge Process
- Developed a 2018 product roadmap to meet known FCC requirements
- Developed contingency plan to deliver viewing layer for MF 2 Challenge requirement

Mobility Fund Phase II Challenge Process

HUBB State Access Tool
- The system was successfully launched in late August 2017

Operational Improvements
- Completed the FCC Order intake process using industry standards
- Currently being used for the MF II Challenge Process
- Enhanced High Cost governance processes and standards

State Access Tool Outreach
- Reached out to all PUCs to get them access to new tool, and held Webinar with NARUC to educate PUCs about the tool and geolocation data

MF I Verifications
- As of 9/2017 HC completed site verifications for 40k road miles of the total 64k awarded road miles
- Tribal Mobility, 38k of the total population of 57k were verified

Mobility Fund Phase I Verifications

4Q2017 to 1Q2018 (look ahead)

PROGRAM INTEGRITY

Monitor and implement controls for legacy funds, audits, improper payments, and validate & verify network build-outs.

- Finalization of the CAF verification plans by fund and reporting
- HUBB Portal Phase 1 enhancements
- Continue Mobility Fund Phase 1 verifications
- Continue verifications of CAF Phase I Round 1 and Round 2, and RBE
- Form 481 (FCC 54.313) changes

USER EXPERIENCE

Strengthen and simplify user experience to enable successful participation.

- HUBB Outreach – Engagement with Rate of Return carriers ahead of March 2018 filing deadline
- MF II Outreach – Engagement with wireless carriers and trade associations to support MF II implementation, including Challenge Process
- High Cost Open Data Outreach – Communications with broad range of industry stakeholders about High Cost Open Data initiative

OPERATIONAL EFFECTIVENESS

Continuously improve the efficiency and effectiveness of business processes.

- Continue to expand High Cost footprint as part of Enterprise Data Strategy and GIS capabilities
- FCC Order implementation
  - Launch the Mobility Fund II Challenge Process System
  - Launch Alaska Middle Mile data collection In HUBB
  - Support New York Waiver and CAF 2 Auction programs
- Test and improve performance of the HUBB in advance of Rate of Return carriers filing in March
- More focus on work rationalization, budget planning, vendor planning, and project management

Universal Service Administrative Co.

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

ACTION ITEM

Approval of Low Income Support Mechanism 1st Quarter 2018 Programmatic Budget and Demand Projection for the November 2, 2017 FCC Filing

Action Requested

The USAC Board of Directors High Cost and Low Income Committee (Committee) is requested to approve a 1st Quarter 2018 (1Q2018) programmatic budget and demand projection for the Low Income (LI) Support Mechanism for submission to the Federal Communications Commission (FCC) in USAC's November 2, 2017 quarterly filing.

Discussion

1Q2018 Operating Budget

The budget before the Committee includes the costs of administering the Low Income Support Mechanism and an allocation of USAC common costs. As set forth in FCC rules[1] and USAC's By-laws,[2] each programmatic committee has authority over its programmatic budget. The USAC Board of Directors has responsibility for the USAC common budget and for the overall consolidated budget.

The Committee is requested to approve $8.39 million in operating expenses for Low Income Support Mechanism programmatic activities in 1Q2018, which includes:

- $1.71 million for compensation and benefits for 45 full time equivalents (FTEs) (including the dedicated information technology (IT) and data support teams).
- $5.01 million in professional fees, including:
  - $3.28 million for the National Verifier (NV) business process outsource (BPO) vendor.
  - $0.40 million for third party identity verification associated with National Lifeline Accountability Database (NLAD) activities.
  - $0.39 million for contract labor.
  - $0.30 million for a NV independent verification and validation.
  - $0.25 million for Lifeline Risk Assessment.
  - $0.21 million for NV software licensing, hosting, and operations and maintenance.
  - $0.11 million for recertification services.
  - $0.07 million for user experience support.
- $0.66 million for audits under the Beneficiary and Contributor Audit Program (BCAP).

[1] 47 C.F.R. § 54.705(c).
[2] By-Laws of Universal Service Administrative Company, Article II, § 8.

- $1.01 million for other expenses, including $0.58 million for postage related to the NV BPO vendor.

1Q2018 Capital Budget

USAC management estimates direct capital expenditures of $1.34 million in 1Q2018 for National Verifier software development. Information on allocated capital expenditures, which are not attributable to a specific division, is provided under item aBOD04 102417.

Attachment A provides the details and compares the proposed 1Q2018 operating budget to 1st Quarter 2017 actual expenditures. Attachment A also provides detail on allocated common costs which are not attributable to a specific division.

Attachment B provides a comparison of the budget to actual expenditures for the nine months ending September 30, 2017. Explanations are provided for significant variances.

Summary of Demand

On a quarterly basis, USAC is required to submit to the FCC the projected demand for the upcoming quarter.[3] This report provides information on the Low Income Support Mechanism for the period ending September 30, 2017; provides updated projections for the current quarter ending December 31, 2017; and seeks approval of funding requirements for 1Q2018.

USAC estimates the 1Q2018 funding requirement for the Low Income Support Mechanism as follows:

$ 313.04 million for Lifeline[4],
$ 0.06 million for Link Up[5]
For a total of: $ **313.10 million.**

Prior Period Adjustments

Sixty days prior to the start of each quarter, USAC provides projected support mechanism demand and administrative expense data to the FCC. Thirty days prior to the start of the quarter, USAC submits projected universal service contributor revenue data to the FCC. The FCC uses these projections to establish the universal service contribution factor for the upcoming quarter, and USAC uses the resulting contribution factor to invoice universal service contributors once the quarter begins.

Results for 3rd Quarter 2017 (3Q2017) contribute to an over-funded condition. The total prior period adjustment to the 1Q2018 funding requirement based on 3Q2017 actual results will reduce the funding requirement by $4.15 million. The explanation for the adjustment is provided below:

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[3] 47 C.F.R. § 54.709(a).
[4] Lifeline Support is provided pursuant to 47 C.F.R. §§ 54.401-54.411.
[5] Link Up Support is provided pursuant to 47 C.F.R. §§ 54.412-54-415.

Reason for the Prior Period Adjustment	Adjustment in Millions
The 3Q2017 actual billings were lower than projected	$16.09
Low Income Support Mechanism distributions were lower than projected in 3Q2017	($16.11)
Bad debt expense was lower than anticipated.	($3.10)
Interest income was higher than anticipated	($0.11)
2016 Annual Administrative Expense True-up	($0.92)
Total Prior Period Adjustment	**($4.15)**

The total fund requirement of $313.10 million is adjusted as follows: decreased by the prior-period adjustments of $4.15 million, increased by administrative costs of $14.92 million (including $5.19 million for USAC's common costs allocated to the Low Income Support Mechanism), and decreased by allocated projected interest income of $0.27 million; resulting in a total projected 1Q2018 funding requirement for the Low Income Support Mechanism of $323.60 million.

Low Income Support Mechanism
Fund Size Projections for 1st Quarter 2018

	(millions)
Low Income Support	$313.10
Prior Period Adjustment	($4.15)
USAC Admin Expenses	$14.92
Interest Income	($0.27)
Total 1Q2018 Demand	**$323.60**

Quarter-Over-Quarter Projections

	1Q2018	4Q2017	3Q2017	2Q2017
Low Income Support	$313.10	$319.89	$330.35	$373.90
Prior Period Adjustment	($4.15)	($44.46)	($54.67)	($27.03)
USAC Admin Expenses	$14.92	$14.69	$8.49	$11.40
Interest Income	($0.27)	($0.28)	($0.17)	($0.14)
Total Demand	**$323.60**	**$289.84**	**$284.00**	**$358.13**

Management Recommendation

USAC management recommends the Committee approve the budget and collection requirement discussed above.

Recommended USAC High Cost & Low Income Committee Action

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC High Cost & Low Income Committee approves a 1st Quarter 2018 programmatic operating budget for the Low Income Support Mechanism of $8.39 million; and

RESOLVED FURTHER, that the USAC High Cost and Low Income Committee approves a 1st Quarter 2018 programmatic capital budget of $1.34 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of $9.73 million for Low Income Support Mechanism administrative costs in the required November 2, 2017 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on October 23, 2017 a summary of the 1st Quarter 2018 Low Income Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required November 2, 2017 filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for the Low Income Support Mechanism is equal to or less than $10 million and, with approval of the Committee Chair, may make adjustments if the total variance is equal to or less than $15 million.

Lifeline Program

1Q2018 Budget
(in thousands)

Expense Category	1Q2018 Budget	1Q2017 Actual	Increase/ (Decrease)	Explanations
Compensation & Benefits	$ 1,706.16	$ 1,186.04	$ 520.12	Wages, employment benefits, and payroll taxes for 45 FTEs (vs. an average of 32 FTEs in Q12017)
Professional Fees & Contract Labor	5,014.67	1,680.34	3,334.32	Increase related to NV: business process outsourcing (BPO), operations and maintenance (O&M), and licensing/hosting
External BCAP Costs	660.30	218.35	441.94	Beneficiary compliance audits
Travel, Meetings and Conferences	49.71	8.19	41.52	Increased program and call center support travel
Other Expenses	959.07	26.39	932.68	Increased postage related to NV BPO
Total Programmatic Operating Costs	**$ 8,389.89**	**$ 3,119.31**	**$ 5,270.58**	
Direct Capital Costs	**$ 1,340.34**	**$ -**	**$ 1,340.34**	NV software development
Total Direct Costs - Low Income Program	**$ 9,730.23**	**$ 3,119.31**	**$ 6,610.93**	
Common Operating Costs Assigned to Low Income Program	$ 4,714.70	$ 3,581.68	$ 1,133.03	Allocation of indirect operating costs based on the Cost Allocation Methodology (CAM)
Common Capital Costs Assigned to Low Income Program	$ 474.59	$ 158.51	$ 316.08	Allocation of indirect common capital budget based on the CAM
Total Common Costs Assigned to Low Income Program	**$ 5,189.29**	**$ 3,740.19**	**$ 1,449.11**	
Total Low Income Program with Allocations	**$ 14,919.53**	**$ 6,859.50**	**$ 8,060.03**	

Low Income Program

For the Nine Months ending September 30, 2017

(in thousands)

Direct Operating Expenses	**Actual**	**Budget**	**Variance**	**%**	**Explanation of Variance**
Compensation & Benefits	$ 4,531.40	$ 5,080.74	$ 549.34	11%	Fewer directly allocated IT FTEs than budgeted
Professional Fees & Contract Labor	8,238.69	7,898.56	(340.13)	-4%	
External BCAP Costs	610.35	572.93	(37.42)	-7%	
Telephone & Computer Support	286.21	221.38	(64.83)	-29%	Higher expense for NV software licensing
Legal Professional Fees	72.36	-	(72.36)	0%	Outside Counsel related to NV BPO
Travel, Meetings and Conferences	33.12	24.92	(8.20)	-33%	Higher spending on program travel
Other Expenses	289.93	433.64	143.70	33%	Lower spending on postage, printing, and graphics year to date
Total Direct Operating Expenses	**$ 14,062.07**	**$ 14,232.16**	**$ 170.10**	**1%**	
Indirect Expense / Allocations					
USAC Administration	9,926.88	9,862.73	(64.15)	-1%	
Total Expense	**$ 23,988.95**	**$ 24,094.90**	**$ 105.95**	**0%**	

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

INFORMATION ITEM – *Executive Session Option*

Information on Nine USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports

Information Presented

This information item provides a summary of the results for nine Low Income Support Mechanism Beneficiary Audit Reports listed in **Exhibit I** to this briefing paper.

Discussion

A general discussion of the findings contained in the draft audit reports is appropriately held in open session. To the extent that High Cost & Low Income Committee (Committee) members wish to discuss specific details of the audit findings, USAC staff recommends that, in accordance with the approved criteria and procedures for conducting USAC Board of Directors (Board) and committee business in ***Executive Session*,** this matter should be considered in ***Executive Session*** because discussion of specific audit plans, targets and/or techniques would constitute a ***discussion of internal rules and procedures***.

Audits were performed on nine Low Income Support Mechanism beneficiaries. The purpose of the audits was to determine whether the beneficiaries complied with Federal Communications Commission (FCC) rules and program requirements. **Exhibit I** to this briefing paper highlights the results of the audits. The audit reports where the entity disagreed with one or more audit findings can be found in **Attachments A – C.**

Summary of Low Income Support Mechanism Beneficiary Audit Reports

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
Global Connection Inc. of America, Arizona	2	• No Material Findings.	$211,918	$481	$481	N
Smith Bagley, Inc., Arizona **(Attachment A)**	2	• No Material Findings.	$1,374,709	$1,187	$747	Y
Choice Communications, LLC, Virgin Islands **(Attachment B)**	6	• No Material Findings.	$13,736	$1,074	$1,074	Y
Micro-Comm, Inc., Mississippi	6	• **Form 497 and National Lifeline Accountability Database (NLAD) Variance.** The Beneficiary claimed subscribers on the audit period subscriber listing who were not active in NLAD. • **Failure to File Form 555.** The Beneficiary did not file the required January 2015 Form 555.	$6,077	$11,757	$6,077	N
New Phone Wireless, LLC, Louisiana	2	• No Material Findings.	$136,965	$490	$490	N
Commnet of Nevada, LLC, Nevada **(Attachment C)**	5	• No Material Findings.	$27,714	$1,601	$1,601	Y
Oklahoma Alltel, Inc., Oklahoma	1	• No Material Findings.	$10,721	$0	$0	N

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
Cellular Network Partnership, Oklahoma	2	• No Material Findings.	$4,705	$919	$919	N
i-Wireless LLC, Delaware	0	• No Findings.	$94,378	$0	$0	N/A
Total	**26**		**$1,880,923**	**$17,509**	**$11,389**	

Attachment A

LI2016BE016

DP George & Company

Smith Bagley, Inc.

Limited Scope Audit on Compliance with the Federal Universal Service Fund Lifeline Support Mechanism Rules

USAC Audit No. LI2016BE016

TABLE OF CONTENTS

DP George & Company

EXECUTIVE SUMMARY

July 7, 2017

Ms. Anita Garrison
Compliance Manager
Smith Bagley, Inc.
1500 S. White Mountain Road
Show Low, AZ 85901

Dear Ms. Garrison,

DP George & Company, LLC (DPG) audited the compliance of Smith Bagley, Inc. (Beneficiary), study area code 459001, using regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. DPG's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope audit.

DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for DPG's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two detailed audit findings (Findings) and one other matter (Other Matter) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary and USAC management's attention.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

We appreciate the cooperation and assistance extended by your staff during the audit.

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

cc: Wayne Scott, Vice President, Internal Audit Division
Vickie Robinson, USAC Acting Chief Executive Officer
Michelle Garber, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.410(d) & 54.410(f)(2)(iii) – Improper Recertification Documentation Disclosures. The Beneficiary's subscriber recertification documentation omitted required disclosures.	$747	$747
Finding #2: 47 C.F.R. § 54.404(b) – Form 497 and NLAD Variance. The Beneficiary claimed subscribers on the audit period subscriber listing who were not active under the corresponding Study Area Code in NLAD and listed subscribers in NLAD not claimed on the subscriber listing.	$0	$0
Other Matter #1: 47 C.F.R. § 54.413(b) – Ineligible Tribal Link Up Subscribers. The Beneficiary claimed subsequent Tribal Link Up support for the same subscriber at the same service address.	$440	0
Total Net Monetary Effect	**$1,187**	**$747**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery of the Lifeline Program support amount noted in the chart above. USAC management will issue a separate memorandum to the Beneficiary to address the audit results.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Beneficiary complied with the Rules.

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its FCC Form 497 (Form 497) for March 2015 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	42,242	$1,358,489
Tribal Link Up	811	$16,220
Total		**$1,374,709**

Note: The amount of support reflects disbursements as of the commencement of the audit.

BACKGROUND

The Beneficiary is a competitive eligible telecommunications carrier (ETC) that operates in Arizona.

PROCEDURES

DPG performed the following procedures:

A. Form 497

DPG obtained and examined the Beneficiary's Form 497 for accuracy by comparing the amounts reported against the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files.

B. Certification and Recertification Process

DPG obtained an understanding of the Beneficiary's enrollment, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also obtained and examined certification and/or recertification documentation for 55 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Subscriber Listing

DPG obtained and examined the Beneficiary's subscriber listing and used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the Form 497 and in NLAD.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 55 subscribers.

E. Form 555

DPG obtained and examined the Beneficiary's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported against the Beneficiary's data files.

F. Non-Usage Process

DPG obtained an understanding of the Beneficiary's non-usage process relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also examined documentation to determine whether the Beneficiary properly validated its low-income subscribers' continued use of the Lifeline-supported service.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.410(d) & 54.410(f)(2)(iii) – Improper Recertification Documentation Disclosures

CONDITION

DPG examined certification documentation for a sample of 25 subscribers and recertification documentation for a sample of 30 subscribers to determine whether the documentation contained all of the required disclosures. We noted that for the telephone recertifications reviewed, several disclosures were not consistently presented to the subscribers during the phone conversations. We have listed the missing disclosures below:

Disclosure	Number of Affected Subscribers Recertification Documentation
Portion of disclosure omitted: "Lifeline is a federal benefit and that **willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program**;"(47 C.F.R. § 54.410(d)(1)(i)).	24
A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses (47 C.F.R. § 54.410(d)(1)(iii)).	1
A household is not permitted to receive Lifeline benefits from multiple providers (47 C.F.R. § 54.410(d)(1)(iv)).	2
Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program (47 C.F.R. § 54.410(d)(1)(v)).	13
Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person (47 C.F.R. § 54.410(d)(1)(vi)).	12
The subscriber's date of birth (47 C.F.R. § 54.410(d)(2)(v)).	15
The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number (47 C.F.R. § 54.410(d)(2)(vi)).	3
The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program- based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit (47 C.F.R. §54.410(d)(3)(ii)).	5
If the subscriber is seeking to qualify for Lifeline as an eligible resident of Tribal lands, he or she lives on Tribal lands, as defined in 54.400(e) (47 C.F.R. §54.410(d)(3)(iii)).	3
If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days (47 C.F.R. §54.410(d)(3)(iv)).	1
The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already	2

Disclosure	Number of Affected Subscribers Recertification Documentation
receiving a Lifeline service (47 C.F.R. §54.410(d)(3)(vi)).	
*Portion of disclosure omitted: "*The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline **at any time**, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to §54.405(e)(4)" (47 C.F.R. §54.410(d)(3)(ix)). Lanaguage used by Beneficiary is "every calendar year."	19
Total	**24**

The Beneficiary must present all of the required disclosures to the subscriber. Because the recertification documentation did not contain the required language, the subscribers did not receive the required disclosures. Therefore, DPG cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing compliance with the required disclosures.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	$747	$747

DPG calculated the monetary effect by multiplying the number of affected Tribal Lifeline subscribers tested (21) by the average support amount requested on the March 2015 Form 497 ($34.25) and the number of affected Non-Tribal subscribers tested (3) by the average support requested on the March 2015 Form 497 ($9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. We further recommend that the Beneficiary implement policies and procedures to ensure that it adheres to the disclosure requirements established by the Rules and provides the proper certification disclosures to its subscribers.

BENEFICIARY RESPONSE

Although SBI disagrees with some of the alleged omissions (see below), SBI agrees that some of the disclosures were missing from some of the recorded recertification calls.

At the outset, SBI notes that it has put new systems and procedures in place that virtually elminate the possibility of omitted or misstated disclosures. During the audit period, SBI had to hire temporary personnel to complete the large amount of recertifications that were required each year. Because of the human element and errors it could cause, SBI built a true interactive voice response ("IVR") system soon afterwards, with the assistance of a company called Genesys. This IVR allowed SBI to prerecord the script that the customer would hear for their recertification so that the language would be consistent and no questions or certifications could be missed as they might with a live agent. The Genesys IVR was launched in May 2015.

In 2016, around 70% of recertifications were done using the IVR. Because the vast majority of recertifications are now done using an automated system or in person using a standard electronic form, only a small percentage of recertifications even have the possibility of omissions due to human error.

With respect to calls with live representatives, SBI has updated the call center process to include all certifications inside the billing system flow. In 2016 the certifications were read via a separate script outside the billing system. Each certification requires the CARE agent to check a box next to each statement to indicate that it was read to the customer and that the customer acknowledged it. This reduces the chances that disclosures will be left out or improperly stated.

Regarding the sampled customer certifications, many of the disclosures listed as missing from the calls or from recertification forms were in fact included. We will provide specific examples at the end of this response, but first SBI provides some general notes.

The FCC's rules expressly permit Lifeline providers to use their own language when conveying the required disclosures and certification statements to the customer. There is no requirement to parrot exactly the language set forth in the rules. This is clear from Section 54.410(d), which requires carriers to use "clear, easily understood language" when certifying or recertifying a customer. If carriers were required to use the exact language set forth in the rules, then there would have been no need for Section 54.410(d) to require clear, easily understood language. Instead, providers – who best know how to communicate with their customers – are permitted to use their own phrasing, as long as the substance of each disclosure and affirmation is conveyed using language that is clear and easily understood. Thus, some of the disclosures listed as missing were actually included, just not using the exact language of the rule.

Regarding the allegedly missing data points, such as address, date of birth, or last four digits of the social security number, this information had already been provided by the customer and resided within SBI's database. SBI avoided repeating the data collection to make the process simpler for the customer while still complying with the letter and spirit of the rules. In addition, as discussed below, certain information was whited-out on the resulting printed forms in order to protect the customer's privacy. We believe it is incorrect to label this information as "missing" if the customer confirms that the information has not changed since they initially provided it. The information is already in the company's system, and asking for the same information a second time would significantly increase the duration of the call, as well as the difficulty of responding, putting an unfair burden on a small business and its customers.

Lastly, SBI disagrees with the auditor's recommendation that USAC recover the reimbursements paid to the company for providing Lifeline to these customers. These are undoubtedly eligible subscribers, as they were confirmed as non-duplicates and legitimate persons when they initially enrolled in NLAD. They also certified that only one person in their household would receive Lifeline, that providing false or fraudulent information to obtain Lifeline benefits is punishable by law, and other statements required by the rules. Given that these are elgibile customers who have completed substantially all required certifications, there is no justification for concluding that the support paid to the company for serving these customers is somehow improperly paid. The company has provided discounted service to these customers in good faith, and should not be subject to a retroactive requirement to provide free, unreimbursed service to legitimate customers.

Specific disclosures:

*"Lifeline is a federal benefit and that **willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program**;"(47 C.F.R. § 54.410(d)(1)(i)).* Although the auditor found that this disclosure was omitted from all 24 recertification call recordings, SBI notes that in several cases the disclosure was substantially made. For example, in the case of call recording No. 2.02, the SBI representative stated: "You acknowledge that providing false information to receive Lifeline benefits is punishable by fines or imprisonment, do you agree?" It is splitting the finest of hairs to suggest that this disclosure was "omitted" when the SBI representative substantially conveyed the disclosure required by the rules.

"The subscriber's date of birth;"(47 C.F.R. § 54.410(d)(2)(v)). In each case listed, this information was collected from the customer as required by the rules. When a customer calls into Customer Care for any reason, including recertification, the customer is validated to be the owner of the account based on CPNI rules. The agent asks the customer to verify of the last four digits of their social security number and their billing address. Because the subscriber is already existing in the billing system, the date of birth is already recorded in the account and printed on the PDF service agreement/certification form. The PDF form masks the date of birth for CPNI purposes. Accordingly, the information has been collected from the customer; masking the information for purposes of privacy does not undo that fact.

*"The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline **at any time**, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to §54.405(e)(4)" (47 C.F.R. §54.410(d)(3)(ix)).* This certification statement was included, but the auditor apparently determined that the certification was "omitted" because the SBI representative said "every calendar year" instead of "at any time". For practical purposes, the certification statement was sufficient for the customer to acknowledge their annual recertification obligation. A benefit should not be invalidated when the substance of the rule was reflected in the certification statement as read to, and acknowledged by, the customer.

DPG RESPONSE

The rules at 47 C.F.R. § 54.410(b)(1)(i) and (c)(1)(i) specify that "an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d)." Regarding the recertification process performed by the eligible telecommunications carrier, 47 C.F.R. § 54.410(f)(2)(iii) also refers to the same requirements in paragraph (d) when identifying the information that must be obtained for the recertification process.

The rules at 47 C.F.R. § 54.410(d)(1) include a listing of six disclosures for which the Beneficiary must "Provide the following information." The disclosure that "Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program" is one of the six disclosures listed under this section. The rules at 47 C.F.R. § 54.410(d)(3) also include nine statements for which the Beneficiary must "require each prospective subscriber to certify (to), under penalty of perjury." DPG determined that the language "You acknowledge that providing false information to receive Lifeline benefits is punishable by fines or imprisonment, do you agree?" satisfies the required certification at 47 C.F.R. §54.410(d)(3)(viii) that "the subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law." We do not agree that this represents the required disclosure under 47 C.F.R. § 54.410(d)(1)(i) which is specified in the rules separately from the required certifications.

The rules at 47 C.F.R. § 54.410(d)(2)(v) and (vi) require the Beneficiary to obtain both the subscriber's date of birth and the last four digits of the subscriber's social security number. As indicated in the first paragraph of DPG's response, the same information is required for certification and recertification. While we recognize that the date of birth may have been captured as part of the certification process and is available in the Beneficiary's system, we did not hear a request to confirm date of birth on the IVR for the 15 subscribers identified. Similarly, for the three recertifications missing the last four of the social security number, we did not hear a request to provide or confirm this information during the recertification call.

The rules at 47 C.F.R. §54.410(d)(3)(ix) use the specific language "at any time" when presenting the frequency of certification to which subscribers must acknowledge under penalty of perjury. DPG does not agree that using the language "every calendar year" clearly presents the required language identified by the rules.

As indicated in the last paragraph of the Condition section for Finding #1, the Beneficiary must present all of the required disclosures to the subscriber. Because the recertification documentation did not contain the required language, the subscribers did not receive the required disclosures. Therefore, DPG cannot conclude that these subscribers were eligible to receive Lifeline Program support. For the reasons above, DPG's position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 54.404(b) – Form 497 and NLAD Variances

CONDITION

DPG examined the Beneficiary's subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Beneficiary reported the correct number of qualifying subscribers on the Form 497. Using the enrollment and de-enrollment dates in NLAD, DPG compared the subscribers who were identified as active in NLAD during the same time period used by the Beneficiary to determine the number of subscribers to report on its Form 497. DPG noted 605 subscribers claimed on the Form 497 for AZ Study Area Code (SAC) 459001 who were recorded in NLAD under the NM SAC 499001 (582 subscribers) or UT SAC 509002 (23 subscribers) instead of the correct AZ SAC. DPG also noted 1,178 subscribers recorded in NLAD under the AZ SAC who were not claimed on the AZ Form 497 because they should have been recorded in NLAD under either the NM SAC (1,105 subscribers) or the UT SAC (73 subscribers).

DPG also noted 47 subscribers listed in NLAD who were not claimed on the Form 497 because the Beneficiary had submitted the subscriber's information for authorization before providing a phone to the subscriber. The Beneficiary indicated that at the time, implementation of the enhanced TPIV resolution process was occurring and it was concerned about providing phones to customers who may not subsequently be approved. As a solution, the Beneficiary submitted the customer information in NLAD using a faux phone number and once approved in NLAD, the subscriber was asked to return to the store to activate the phone and receive a permanent phone number. The Beneficiary indicated that subscribers were not claimed on the Form 497 during the TPIV approval period and that it ceased using this process after two months.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to correctly transmit and/or update its new and existing subscriber data in NLAD. The Beneficiary indicated that it relied on a manual entry system for NLAD prior to implementing an Application Programming Interface (API) connection between its billing system and NLAD in April 2015; many new enrollments erroneously selected the wrong SAC from the dropdown in NLAD. The Beneficiary also indicated that the billing system may also not match the NLAD SAC because customers who move across state lines did not disconnect their service; they simply update their physical address in the billing system.

With respect to the 47 subscribers listed in NLAD and not claimed on the Form 497 because they were awaiting TPIV verification, the Beneficiary indicated that service was not connected and claimed because they were concerned about retrieving a phone from customers who were determined ineligible as a result of the subsequent TPIV verification. The Beneficiary indicated that this policy was only in place for a period of two months and then phones were provided and connected at the time of application.

EFFECT

There is no monetary effect for this finding, as subscribers were entered into the NLAD database or were not claimed on the Form 497. However, recording subscribers under the incorrect SAC in NLAD and recording subscribers in NLAD who are not receiving service diminishes the capability to use NLAD as a reconciling tool and creates the potential for subscribers to be flagged as receiving service from another carrier when they are not.

RECOMMENDATION

DPG recommends that the Beneficiary implement corrective actions to record subscribers under the appropriate SACs within NLAD.

BENEFICIARY RESPONSE

> As detailed in its responses to inquiries during the course of this audit, the company has already implemented corrective actions which have addressed the issues described above.
>
> During the audit period, SBI relied on a manual entry system for NLAD. This was before it implemented an API connection between its billing system and NLAD in April 2015. During this pre-API period, SBI sales representatives sometimes selected the wrong SAC from the dropdown menu in NLAD. With manual entry, human error is inevitable, and this is why SBI transitioned to the API.
>
> A second reason that the physical state in the billing system may not match the SAC in NLAD is that customers who move across state lines do not disconnect their service, since it is a cellular phone. Rather, they simply update their physical address in our billing system.
>
> While a SAC change within the same company should intuitively be easy to accomplish, NLAD allows no easy solution. First, NLAD does not allow updates to the SAC. Second, SBI could transfer the customer from one SAC to another, but the process would have been impeded by the 60-day port freeze then in effect in NLAD. Because the service initialization date, the phone number and the account number (ETC General Use) did not change, NLAD would not allow the transfer because the service initiation date was the same under the current SAC and the corrected SAC.
>
> Third, the alternative to correcting the SAC in NLAD is to de-enroll the customer and reenroll the customer with the correct information. This is a time-consuming process and also puts an existing

customer at risk of not being able to be enrolled in NLAD because of other errors that may come up in the enrollment process.

Because of the cumbersome NLAD processes and the large number of SACs that need to be changed in NLAD, the problem is ongoing. SBI is currently in discussions with USAC to find an orderly way to accomplish them. In the meantime, SBI does not rely on the SAC listed in NLAD for 497 subscriber counts; instead, it uses the physical state listed in the billing system to determine what SAC to claim the subscriber under. In this way, SBI ensures that all subscribers are associated with the correct and updated SAC for purposes of Lifeline reimbursements.

Other Matter #1: 47 C.F.R. § 54.413(b) – Ineligible Tribal Link Up Subscribers

CONDITION

DPG examined the subscriber data for the Link Up subscribers claimed in the audit period against subscriber data in NLAD to determine if the subscriber had previously been claimed for Link Up support at the same address. The Beneficiary serves a predominantly Tribal population and many of the residential service addresses provided are descriptive addresses that are not standard postal service addresses. DPG identified 22 subscribers with the same SSN and DOB where the current and previous addresses described appeared to be the same location. DPG confirmed with the Beneficiary that it does query the NLAD database to determine if Link Up has already been claimed for the subscriber at the same address. Because of variations in the description, none of the 22 addresses reviewed would be identified as an identical service address match. However, based on the descriptions provided, the residential service address was the same and Tribal Link Up support was provided more than once.

CAUSE

The service addresses entered were not standard postal service addresses (e.g. 2 ½ miles W of chapter house) and the description provided on the subsequent application, while describing the same location, was not identical and did not trigger a match in NLAD (e.g. 2 ½ miles versus 2.5 miles). Furthermore, the Beneficiary does not perform additional comparisons to its internal records to determine if a subscriber being claimed for Link Up was a previous subscriber with the Beneficiary and if so, the descriptive address provided refers to the same physical service location previously provided.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	$440	$0

DPG calculated the monetary effect by multiplying the number of Link Up subscribers claimed at the same residential service address (22) by the Link Up amount requested on the March 2015 Form 497 ($20).

RECOMMENDATION

Because the Beneficiary followed the rules specified at 47 C.F.R. § 54.404(c) regarding the use of NLAD to identify Link Up at the same residential service address, DPG recommends that USAC management forego recovery of the amount identified in the Effect section above. However, given the greater matching difficulty presented by descriptive addresses over standard postal service addresses and the requirement at 47 C.F.R. § 54.413(b) that prohibits providing subsequent Link Up support to the same subscriber at the same residential service address; DPG recommends that the Beneficiary implement additional procedures to review descriptive service addresses provided for previous Lifeline customers before claiming them for Link Up support on the Form 497.

BENEFICIARY RESPONSE

When enrolling in SBI's Lifeline service, customers provide descriptive addresses that use nearby towns, distance estimates, landmarks, physical descriptions of the residence, and other information. These are the only addresses known to the residents of the Tribal and near-reservation areas SBI serves. Because these are descriptive, there is tremendous variability. Nonetheless, over the past several years, SBI has worked diligently to standardize descriptive addresses as much as possible so that SBI, and NLAD, can meaningfully compare customer and applicant addresses to identify locations with existing Lifeline accounts. We believe there is no feasible way to standardize descriptive addresses completely, so that all cases of duplicate addresses will be identified, whether by NLAD or by SBI's internal checks. SBI continues to refine its standardization efforts, and these efforts should result in greater accuracy in identifying preexisting Lifeline enrollments at the same address.

SBI has also done more than is required by performing database queries, within the limits of its system capabilities, to identify prior enrollments at the same address. In contrast to duplicate identification, the FCC's rules and orders do not require Lifeline providers to perform queries back in time to identify potential cases where a new applicant previously enrolled with the same provider at the same address. In SBI's experience, billing systems can accommodate searches to identify data matches among existing customers, but not between new applicants and customers who previously terminated service. A rule requiring this kind of data comparison across time periods for current and former subscribers would impose significant burdens on small businesses like SBI. A less burdensome way to help ensure compliance with the rule might be to require a self-certification by the applicant that they have not received Lifeline from any provider at the same address. But again, the FCC has not adopted such a rule.

As the auditor acknowledges, SBI is fully in compliance with the rules. SBI has exercised diligence in refining its ability to match up descriptive addresses, and it has gone above and beyond applicable requirements by performing data queries to identify previous enrollments by the same customer at the same address. Even with a system that is perfectly capable of identifying all cases of a customer previously enrolling in its Lifeline service at the same address, the customer still might have enrolled with a different provider. Accordingly, SBI believes it would be unnecessarily burdensome to insist on additional procedures that are not required by the FCC's rules and would not provide significant additional assurance that customers are in compliance with Link-Up rules.

CRITERIA

Finding	Criteria	Description
#1, #2	47 C.F.R. § 54.407(a) (2014)	"Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier, based on the number of actual qualifying low-income consumers it serves."
#1	47 C.F.R. § 54.410(d) (2014)	"(d) Eligibility certifications. Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that in clear, easily understood language: (1) Provide the following information: (i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program… (iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program; and (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person. (2) Require each prospective subscriber to provide the following information:… (v) The subscriber's date of birth; (vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number;… (3) Require each prospective subscriber to certify, under penalty of perjury, that:… (ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit. (iii) If the subscriber is seeking to qualify for Lifeline as an eligible resident of Tribal lands, he or she lives on Tribal lands, as defined in 54.400(e);… (iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days;… (vi) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service;… (ix) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's

Finding	Criteria	Description
		Lifeline benefits pursuant to § 54.405(e)(4)."
#1	47 C.F.R. § 54.410(f)(2)(iii) (2014)	"In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by: … Obtaining a signed certification from the subscriber that meets the certification requirements in paragraph (d) of this section."
#2	47 C.F.R. § 54.404(b)(6), (8), (10) (2014).	"The National Lifeline Accountability Database. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: … (6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline…. (8) All eligible telecommunications carriers must update an existing Lifeline subscriber's information in the Database within ten business days of receiving any change to that information, except as described in paragraph (b)(10) of this section…. (10) When an eligible telecommunications carrier de-enrolls a subscriber, it must transmit to the Database the date of Lifeline service de-enrollment within one business day of de-enrollment."
#2	47 C.F.R. § 54.407(e) (2014)	"In order to receive universal service support reimbursement, an eligible telecommunications carrier must keep accurate records of the revenues it forgoes in providing Lifeline services. Such records shall be kept in the form directed by the Administrator and provided to the Administrator at intervals as directed by the Administrator or as provided in this subpart."
#2	47 C.F.R. § 54.417(a) (2014)	"Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Notwithstanding the preceding sentence, eligible telecommunications carriers must maintain the documentation required in [47 C.F.R.] § 54.410(d) and (f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier."

Other Matter	Criteria	Description
#1	47 C.F.R. § 54.413(b) (2014)	" An eligible resident of Tribal lands may receive the benefit of the Tribal Link Up program for a second or subsequent time only for otherwise qualifying commencement of telecommunications service at a principal place of residence with an address different from the address for which Tribal Link Up assistance was provided previously."
#1	47 C.F.R. § 54.404(c) (2014)	"Tribal Link Up and the National Lifeline Accountability Database. In order to receive universal service support reimbursement for Tribal Link Up, eligible telecommunications carriers operating in states that have not provided the Commission with a valid certification pursuant to paragraph (a) of this section, must comply with the following requirements: (1) Such eligible telecommunications carriers must query the Database to determine whether a prospective Link Up recipient who has executed a certification pursuant to § 54.410(d) has previously received a Link Up benefit at the residential address provided by the prospective subscriber. (2) If the Database indicates that a prospective subscriber has received a Link Up benefit at the residential address provided by the subscriber, the eligible telecommunications provider must not seek Link Up reimbursement for that subscriber."

Attachment B

LI2016BE019

DP George & Company

Choice Communications, LLC

Limited Scope Audit on Compliance with the Federal Universal Service Fund
Lifeline Support Mechanism Rules
USAC Audit No. LI2016BE019

TABLE OF CONTENTS

DP George & Company

EXECUTIVE SUMMARY

July 7,2017

Mr. Rohan Ranaraja, Director
Choice Communications, LLC
1001 Technology Drive
2nd Floor
Little Rock, AR 72223

Dear Mr. Ranaraja:

DP George & Company, LLC (DPG) audited the compliance of Choice Communications, LLC. (Beneficiary), study area code 649002, using regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. DPG's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope audit.

DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for DPG's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed six detailed audit findings (Findings) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

We appreciate the cooperation and assistance extended by your staff during the audit.

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

cc: Wayne Scott, Vice President, Internal Audit Division
Vickie Robinson, USAC Acting Chief Executive Officer
Michelle Garber, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: De-enrollment Deadline. The Beneficiary did not de-enroll all subscribers by the de-enrollment deadline.	$870	$870
Finding #2: 47 C.F.R. § 54.410(d) & 54.410(f)(2)(iii) – Improper Recertification Documentation Disclosures. The Beneficiary's subscriber recertification documentation omitted required disclosures.	$204	$204
Finding #3: 47 C.F.R. § 54.404(b) – NLAD and Form 497 Variance. The Beneficiary failed to remove subscribers from NLAD within the required time frame.	$0	$0
Finding #4: 47 C.F.R. § 54.416(b) – Inaccurate Form 555 Reporting. The results reported on the January Form 555 were not supported by the Beneficiary's detailed recertification results.	$0	$0
Finding #5: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Request. The recertification request notification did not specify that the subscriber must respond within 30 days.	$0	$0
Finding #6: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification. The non-usage notification sent to subscribers did not specify that the subscriber must cure non-usage within 30 days.	$0	$0
Total Net Monetary Effect	**$1,074**	**$1,074**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery of the Lifeline Program support amount noted in the chart above. USAC management will issue a separate memorandum to the Beneficiary to address the audit results.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Beneficiary complied with the Rules.

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its FCC Form 497 (Form 497) for August 2015 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	1,485	$13,736

Note: The amount of support reflects disbursements as of the commencement of the audit.

BACKGROUND

The Beneficiary is a competitive eligible telecommunications carrier (ETC) that operates in the Virgin Islands.

PROCEDURES

DPG performed the following procedures:

A. Form 497

DPG obtained and examined the Beneficiary's Form 497 for accuracy by comparing the amounts reported against the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files.

B. Certification and Recertification Process

DPG obtained an understanding of the Beneficiary's enrollment, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also obtained and examined certification and/or recertification documentation for 45 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Subscriber Listing

DPG obtained and examined the Beneficiary's subscriber listing and used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the Form 497 and in NLAD.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 45 subscribers.

E. Form 555

DPG obtained and examined the Beneficiary's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported against the Beneficiary's data files.

F. Non-Usage Process

DPG obtained an understanding of the Beneficiary's non-usage process relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also examined documentation to determine whether the Beneficiary properly validated its low-income subscribers' continued use of the Lifeline-supported service.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: De-enrollment Deadline

CONDITION

DPG noted 182 subscribers on the August 2015 subscriber listing who were identified in the 2014 detailed recertification results as de-enrolled, or scheduled for de-enrollment. DPG selected a sample of 10 subscribers from this group and requested support showing their de-enrollment date and a copy of the new certification form establishing their eligibility for inclusion on the August 2015 Form 497. DPG also noted 65 subscribers on the August 2015 subscriber listing who were previously listed as de-enrolled for non-usage. DPG selected a sample of 5 subscribers from this group and requested the same support. DPG noted the following:

- The Beneficiary did not provide actual de-enrollment dates for any of the 15 selected subscribers; however, a new certification form was provided for three of the 15 selected subscribers.
- Further inquiry identified that four of the subscribers listed in the detailed recertification results as de-enrolled prior to recertification had submitted valid recertification forms and were not listed properly on the Form 555.
- DPG identified one subscriber as part of certification/recertification testing who did not complete a 2014 recertification form but was claimed on the August 2015 Form 497.

DPG reviewed the NLAD database to determine if any of the subscribers above had been de-enrolled in NLAD. Using the December 31, 2014 deadline[1] or the de-enrollment month for non-usage as the starting point, DPG determined that the Beneficiary either did not de-enroll or delayed de-enrollment by a total of 94 months for the sampled subscribers.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the recertification process and did not have adequate procedures in place to de-enroll subscribers in accordance with the rules.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	$870	$870

[1] *See Wireline Competition Bureau Reminds Carriers That They Must Re-Certify Eligibility of All Lifeline Subscribers by December 31, 2012*, Public Notice, WC Docket Nos. 03-109, *et al.*27 FCC Rcd 12327, 12327, at 1-2 (2012) (*October 2012 Public Notice*) ("ETCs and state agencies must recertify their base of subscribers as of June 1, 2012 and must complete the recertification process by December 31, 2012."); *id*. at 12328 (recertification is "not complete" until the ETC has de-enrolled the non-responding or ineligible subscriber). Although the FCC's *October 2012 Public Notice* specifically references December 31, 2012, the FCC did not alter the December 31 cut-off date for subsequent recertification processes.

DPG calculated the monetary effect by multiplying the number of additional months (94) the subscribers were claimed on a Form 497 after December 2014 or after the non-usage de-enrollment month by the support amount requested on the Form 497 ($9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. DPG also recommends that the Beneficiary implement policies and procedures to ensure it properly de-enrolls subscribers who fail to cure non-usage or respond to its recertification requests by the required deadlines stated in the Rules.

BENEFICIARY RESPONSE

> Beneficiary has sufficient knowledge of the Rules governing the recertification process. Failure to de-enroll a subscriber from the NLAD in a timely manner is an administrative error and is not a reflection of Beneficiary's overall understanding of the Rules of the Lifeline program. Furthermore, this finding, based solely on the August 2015 audit period, does not support the assertion that Beneficiary claimed each of the subscribers in each month following December 2014. To determine if a subscriber was claimed on the Form 497, the auditors would first have to audit every filing period beginning January 2015, until the last subscriber in question was determined to be de-enrolled from NLAD. This recommendation is overly broad and the basis for recovery is unproven.
>
> Since the audit period, Beneficiary has implemented procedures to ensure subscribers are de-enrolled from NLAD in a timely manner.

DPG RESPONSE

The rules at 47 C.F.R. § 54.405(e)(3) and (4) specify that subscribers who fail to use their phone for a period of 90 days or fail to respond to recertification requests must be de-enrolled from the Lifeline program. All of the subscribers identified by this finding were designated by the Beneficiary as either de-enrolled for non-usage or scheduled for de-enrollment as a result of the recertification process. The rules at 47 C.F.R. § 54.404(b)(6) and (10) require the Beneficiary to record in NLAD, the date on which Lifeline service is terminated and to transmit Lifeline service de-enrollment to NLAD within one business day of de-enrollment. The Beneficiary clearly claimed each of the identified subscribers in the audit period and, in response to our inquiry, provided no evidence from either its own records or through required reporting in NLAD to indicate that the subscribers were 1) removed or 2) re-enrolled in the period between when they were first identified for de-enrollment and the audit period. The rules at 47 C.F.R. § 54.407(e) further indicate that "in order to receive universal service support reimbursement, an eligible telecommunications carrier must keep accurate records of the revenue it forgoes in providing Lifeline services." Subsequent to the Beneficiary's audit response above, DPG contacted the Beneficiary to provide confirmation whether the subscribers identified in our finding were claimed in the months identified outside the audit period. The Beneficiary responded that it researched several of the subscribers listed and found the finding to be accurate. For these reasons, DPG's position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 54.410(d) & 54.410(f)(2)(iii) – Improper Recertification Documentation Disclosures

CONDITION

DPG examined certification documentation for a sample of 21 subscribers and recertification documentation for a sample of 24 subscribers to determine whether the documentation contained all of the required disclosures. We noted that the disclosures below were omitted from the subscriber recertification documentation:

Disclosure	Number of Affected Subscribers Recertification Documentation
Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program (47 C.F.R. § 54.410(d)(1)(i))	22
A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together and share income and expenses (47 C.F.R. § 54.410(d)(1)(iii))	22
A household is not permitted to receive Lifeline benefits from multiple providers (47 C.F.R. § 54.410(d)(1)(iv))	22
Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscribers de-enrollment from the program (47 C.F.R. § 54.410(d)(1)(v))	22
Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person (47 C.F.R. § 54.410(d)(1)(vi))	22
Portion of disclosure omitted: "Under penalty of perjury" (47 C.F.R. § 54.410(d)(3))	22
The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline (47 C.F.R. § 54.410(d)(3)(i))	22
The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit (47 C.F.R. § 54.410(d)(3)(ii))	22
The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service (47 C.F.R. § 54.410(d)(3)(vi)) Form provided uses the wording "No one in my household is receiving Lifeline benefits from another provider to my knowledge"	22
The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge (47 C.F.R. § 54.410(d)(3)(vii))	22

Disclosure	Number of Affected Subscribers Recertification Documentation
The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to §54.405(e)(4) (47 C.F.R. § 54.410(d)(3)(ix)) Form provided uses the wording "if you fail to recertify yearly, your service may be interrupted and/or you may be required to move to a different rate plan"	22
Total	**22**

The Beneficiary must list all of the required disclosures on the subscriber recertification documentation. Because the recertification documentation did not contain the required language, the subscribers did not receive the required disclosures. Therefore, DPG cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing compliance with the required disclosures.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	$204	$204

DPG calculated the monetary effect by multiplying the number of affected subscribers tested (22) by the support amount requested on the August 2015 Form 497 ($9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. We further recommend that the Beneficiary implement policies and procedures to ensure that it adheres to the disclosure requirements established by the Rules and provide the proper certification disclosures to its subscribers, as required by the Rules.

BENEFICIARY RESPONSE

Beneficiary fully understands the rules surrounding recertification requirements, and Beneficiary asserts that it has met the requirements set forth in the Rules.

The FCC's rules do not require Lifeline providers to use the exact language contained in the rules governing disclosures on certification forms. This is evidenced by Section 54.410(d), which requires carriers to use "clear, easily understood language". If carriers were required to use the exact language set forth in the rules, then there would have been no need for Section 54.410(d) to require clear, easily understood language; instead, providers are permitted to use their own phrasing, as long as the substance of each disclosure and affirmation is conveyed using language that is clear and easily understood. Some of the disclosures listed as missing were actually included, just not using the exact language of the rule.

Beneficiary's IVR script was designed to avoid overwhelming the customer with legalistic verbiage. Beneficiary felt that some of the disclosures would be more easily understood if they were simplified, consistent with the rules. In addition, Beneficiary worked to keep the call short so it is more user-friendly. Several of the items identified as "missing" are included in beneficialry's intial certification form, and each customer is made aware of, and certifies understanding of those items prior to receiving a Lifeline benefit. A customer's benefit should not be invalidated purely because he or she listened and responded to disclosures designed for brevity and clarity.

Lastly, Beneficiary disagrees with the auditor's recommendation that USAC recover the reimbursements paid to the beneficiary for providing Lifeline to these customers. These are undoubtedly eligible subscribers, as they were confirmed as non-duplicates when they initially enrolled in NLAD. In the course of their recertification calls, these customers certified that they continue to be eligible under the program with which they originally qualified. They also certified that only one person in their household would receive Lifeline, and that providing false or fraudulent information to obtain Lifeline benefits is punishable by law. Given that these are elgibile customers who have completed substantially all required certifications, there is no justification for concluding that the support paid to the Beneficiary for serving these customers is somehow improper. The Beneficiary has provided discounted service to these customers in good faith, and should not be subject to a retroactive requirement to provide free service to legitimate customers.

However, in light of these findings, Beneficiary is in the process of updating its IVR script in a way that further complies with all applicable requirements and fully addresses the concerns noted above.

DPG RESPONSE

The rules at 47 C.F.R. § 54.410(b)(1)(i) and (c)(1)(i) specify that "an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d)." Regarding the recertification process performed by the eligible telecommunications carrier, 47 C.F.R. § 54.410(f)(2)(iii) also refers to the same requirements in paragraph (d) when identifying the information that must be obtained for the recertification process. The paragraph (d) language is specific with regard to the information that should be disclosed to, obtained from, and certified by the subscriber. The Beneficiary presents these requirements in its initial application form using language that mirrors each of the requirements in the rules. The wording used in the recertification IVR does not incorporate the language used in paragraph (d) for the disclosures identified and therefore does not clearly convey the information intended by the rules. Because the Beneficiary did not comply with all of the requirements set forth in paragraph (d), the Beneficiary is not entitled to seek reimbursement for the identified subscribers. For this reason, DPG's position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 54.404(b) – NLAD and Form 497 Variance

CONDITION

DPG examined the Beneficiary's subscriber data in the National Lifeline Accountability Database (NLAD) and on the audit period subscriber listing to identify subscribers reflected in NLAD and not claimed on the August 2015 Form 497. From these subscribers, DPG identified 53 customers who were previously scheduled for de-enrollment by the Beneficiary but were listed in NLAD as of the audit period. DPG requested an explanation and related support for five of these subscribers, clarifying why the subscribers had not been removed from NLAD. The Beneficiary indicated that failure to remove these customers from NLAD in a timely manner was an administrative error. The Beneficiary is required to submit subscriber de-enrollment information to NLAD within one business day of de-enrollment.

CAUSE

The Beneficiary did not have an adequate system in place for transmitting and/or updating its existing subscriber data in NLAD. The Beneficiary indicated that failure to remove these customers from NLAD in a timely manner was an administrative error.

EFFECT

There is no monetary effect for the subscribers not de-enrolled in NLAD because these subscribers were not claimed on the Form 497. However, not de-enrolling customers in NLAD within the required timeframe creates the potential for subscribers to be flagged for duplicate resolution unnecessarily.

RECOMMENDATION

DPG recommends that the Beneficiary implement an adequate system to transmit and/or update its existing subscriber data in NLAD, and maintain adequate documentation to demonstrate compliance with the Rules.

BENEFICIARY RESPONSE

Since the audit period, Beneficiary has implemented procedures to ensure subscribers are de-enrolled from NLAD in a timely manner.

Finding #4: 47 C.F.R. § 54.416(b) – Inaccurate Form 555 Reporting

CONDITION

DPG examined the Beneficiary's detailed recertification results to determine whether the Beneficiary could substantiate the number of subscribers reported on the January 2015 Form 555. The detailed recertification results agreed to the Form 555. However, DPG noted that the sum of Blocks F and K on the Form 555 did not equal Block E. Further review of the detailed recertification results and inquiry with the Beneficiary identified 83 subscribers reported as both de-enrolled prior to recertification attempt under Block D and contacted directly to recertify eligibility under Block F. If the subscriber was de-enrolled prior to recertification attempt, then they should not have been reported as contacted to recertify. DPG further noted 31 subscribers who completed new certifications were included on the Form 555 under Block G as subscribers responding to contact instead of under Block H as non-responding subscribers. When performing de-enrollment testing, DPG also identified four subscribers who were reported on the Form 555 as de-enrolled prior to recertification attempt but were identified during our testing as having submitted a valid recertification form.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct number of subscribers on the Form 555 and did not recognize when it initially reported its Form 555 numbers that it had incorrectly included 83 subscribers as contacted directly to recertify.

EFFECT

DPG is unable to calculate the monetary effect, as it does not correspond to a specific amount claimed for reimbursement on the Form 497. However, because an adequate system was not in place for collecting, reporting and monitoring data, there is a risk that the Beneficiary may not have de-enrolled all of the subscribers it was required to de-enroll and continued to claim these subscribers for reimbursement on subsequent Forms 497.

RECOMMENDATION

DPG recommends that the Beneficiary implement an adequate system to report the correct number of subscribers on the Form 555 and maintain documentation to demonstrate compliance with the Rules.

BENEFICIARY RESPONSE

> Beneficiary has since implemented processes and better trained its employees in an effort to prevent these errors from occurring in the future.

Finding #5: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Request

CONDITION

DPG examined the Beneficiary's recertification process used to report information on the January 2015 Form 555. We noted that the Beneficiary's recertification requests did not specify that the subscriber must respond within 30 days of the date of the request. The Beneficiary must inform subscribers using clear, easily understood language, that failure to respond to the recertification request within 30 days of the date of the request will trigger de-enrollment from the Lifeline Program.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the recertification process.

EFFECT

DPG is unable to calculate the monetary effect for this finding, as it is not known how many subscribers did not respond in the appropriate time period as a result of the 30-day response deadline not being communicated.

RECOMMENDATION

DPG recommends that the Beneficiary revise the language in its recertification request to clearly indicate that subscribers have 30 days to respond to the request or they will be de-enrolled.

BENEFICIARY RESPONSE

> Beneficiary was fully aware of the requirement to give subscribers a 30-day notice to complete recertification. The Beneficiary made efforts to reach customers a minimum of 30 days prior to the end of the recertification period via voice, mail and text message.

All notifications alerted customers that failure to recertify would result in de-enrollment from the Lifeline program

In light of this finding, Beneficiary has updated the language of its recertification notifications to clearly indicate the deadline for recertification based on the new rolling recertification requirements effective July 1, 2017.

DPG RESPONSE

The rules at 47 C.F.R. § 54.405(e)(4) specify that the recertification request sent to subscribers must notify subscribers in writing that failure to respond to the Beneficiary's recertification request within 30 days of the date of the request will trigger de-enrollment from the Lifeline Program. The Beneficiary's written notification did not include language notifying subscribers of the 30 day period to respond and therefore did not comply with the rules. For this reason, DPG's position on this finding remains unchanged.

Finding #6: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification

CONDITION

DPG examined the Beneficiary's process for tracking and de-enrolling subscribers for the non-usage results reported on the January 2015 Form 555. The non-usage notification messages the Beneficiary sent to subscribers, via both mail and text, stated that in order to retain service, the subscriber must begin using the phone immediately. The notifications did not clearly indicate that if the phone was not used in 30 days, service would be terminated. The Beneficiary must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the non-usage process.

EFFECT

There is no monetary effect for this finding, as DPG noted that while the Beneficiary did not indicate the number of days on the notification, its policy was to terminate service if non-usage was not cured 30 days after the notification.

RECOMMENDATION

DPG recommends that the Beneficiary revise the language in its non-usage notifications to clearly identify the number of days the subscriber has from the date of notification to cure non-usage and avoid service termination. The rules have been changed since the audit period and now allow only 15 days from the date of notification.

BENEFICIARY RESPONSE

Beneficiary was fully aware of the requirement to terminate a Lifeline customer's benefits when a customer had non-usage over a 30 day period and did terminate Lifeline benefits to customers that had non-usage over a 30-day period. Beneficiary made efforts to reach customers via both mail and text messages and did not specifically reference a 30 day period to avoid customer confusion.

In light of this finding, Beneficiary has updated the language on its non-usage notification to clearly indicate that subscriber must use his or her device within 15 days of the notification to avoid service termination.

DPG RESPONSE

The rules at 47 C.F.R. § 54.405(e)(3) specify that the non-usage notifications sent to subscribers must indicate in writing that the subscriber's failure to use the Lifeline service within the 30 day notice period will result in service termination. The Beneficiary's written notification did not include language notifying subscribers of the 30 day notice period to respond and therefore did not comply with the rules. For this reason, DPG's position on this finding remains unchanged.

CRITERIA

Finding	Criteria	Description
#1, #3	47 C.F.R. § 54.404(b)(6), (8), (10) (2014)	"(b) The National Lifeline Accountability Database. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: … (6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline.… (8) All eligible telecommunications carriers must update an existing Lifeline subscriber's information in the Database within ten business days of receiving any change to that information, except as described in paragraph (b)(10) of this section.… (10) When an eligible telecommunications carrier de-enrolls a subscriber, it must transmit to the Database the date of Lifeline service de-enrollment within one business day of de-enrollment."
#1, #5	47 C.F.R. § 54.405(e)(4) (2014)	"*De-enrollment for failure to re-certify.* Notwithstanding paragraph (e)(1) of this section, an eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier's attempts to obtain re-certification of the subscriber's continued eligibility as required by [47 C.F.R.] § 54.410(f)."
#1, #6	47 C.F.R. § 54.405(e)(3) (2014)	"*De-enrollment for non-usage.* Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as 'usage' is defined in [47 C.F.R.] § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess or collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service within 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service."
#1	47 C.F.R. § 54.407(e) (2014)	"In order to receive universal support reimbursement, an eligible telecommunications carrier must keep accurate records of the revenues it forgoes in providing Lifeline services. Such records shall be kept in the form directed by the Administrator and provided to the Administrator at intervals as directed by the Administrator or as provided in this subpart."

Finding	Criteria	Description
#1	*Wireline Competition Bureau Reminds Carriers That They Must Re-Certify Eligibility of All Lifeline Subscribers by December 31, 2012*, Public Notice, WC Docket Nos. 03-109, *et al.*, 27 FCC Rcd 12327, 12327, 1-2 (Oct. 2012) (*October 2012 Public Notice*) (internal footnotes omitted).	"ETCs and state agencies must re-certify their base of subscribers as of June 1, 2012 and must complete the re-certification process by December 31.... The re-certification process is not considered 'complete' until the ETC has de-enrolled all subscribers that failed to respond to a re-certification request or are no longer eligible, or where a database query by the ETC or state agency indicates the subscriber is no longer eligible and the subscriber has not provided a valid re-certification pursuant to [47 C.F.R.] § 54.410(d)."
#2	47 C.F.R. § 54.407(b) (2014)	"An eligible telecommunications carrier may receive universal service support reimbursement for each qualifying low-income consumer served."
#2	47 C.F.R. § 54.410(b)(1)(i), (c)(1)(i) (2014)	"(b) *Initial income-based eligibility determination.* (1) Except where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility when a prospective subscriber seeks to qualify for Lifeline or using the income-based eligibility criteria provided for in § 54.409(a)(1) or (a)(3) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed eligibility... (c) *Initial program-based eligibility determination.* (1) Except where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility when a prospective subscriber seeks to qualify for Lifeline or using the program-based eligibility criteria set forth in § 54.409(a)(2), (a)(3) or (b) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility..."
#2	47 C.F.R. § 54.410(d) (2014)	"(d) *Eligibility certifications.* Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that in clear, easily understood language: (1) Provide the following information: (i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program; (iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live

Finding	Criteria	Description
		together and share income and expenses; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscribers de-enrollment from the program; (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person. (2) Require each prospective subscriber to provide the following information: (ii) The subscriber's full residential address; (iv) The subscriber's billing address, if different from the subscriber's residential address; (v) The subscriber's date of birth; (vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number; (vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; (viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in § 54.409, the number of individuals in his or her household. (3) Require each prospective subscriber to certify, under penalty of perjury, that: (i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline; (ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit; (iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days (vi) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service; (vii) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge; (ix) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits."
#2	47 C.F.R. §	"*Annual eligibility re-certification process.* All eligible

Finding	Criteria	Description
	54.410(f)(1), (2)(iii) (2014)	telecommunications carriers must annually re-certify all subscribers except for subscribers in states where a state Lifeline administrator or other state agency is responsible for re-certification of subscribers' Lifeline eligibility. In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by: … Obtaining a signed certification from the subscriber that meets the certification requirements in paragraph (d) of this section."
#4	47 C.F.R. § 54.416(b) (2014)	"All eligible telecommunications carriers must annually provide the results of their re-certification efforts, performed pursuant to [47 C.F.R.] § 54.410(f), to the Commission and the Administrator."
#4	Annual Lifeline Eligible Telecommunications Carrier Certification Form Instructions, OMB 3060-0819 (Nov. 2014), at 3 (FCC Form 555 Instructions)	"<u>Block D</u> Report the number of subscribers who de-enrolled from Lifeline prior to the ETC's attempt to recertify continued eligibility, either directly, through the use of a third-party administrator (such as USAC), by a state administrator, or by access to a state eligibility database. This number should include all subscribers who de-enrolled for any reason, including those subscribers that discontinued Lifeline service with the ETC on their own initiative and those that the ETC de-enrolled from Lifeline (for example, those de-enrolled for non-usage). If no subscribers were de-enrolled from Lifeline prior to the recertification attempt, the ETC should enter zero in Block D…. <u>Block F</u> Report the number of Lifeline subscribers the ETC contacted directly to obtain recertification of eligibility. Enter zero if the ETC relied solely on methods other than direct contact with subscribers (e.g., consulting a state database or relying on a Lifeline administrator) to recertify eligibility. If the eligibility of any subscriber was reviewed through the use of a state database or state administrator and subsequently contacted directly by the ETC in an attempt to recertify eligibility, those subscribers should be recorded in Block F through J as appropriate and not in Blocks K and L. All subscribers subject to recertification, calculated in Block E, must be accounted for in Block F or Block K. The total of Blocks F and K should equal the number reported in Block E."
#6	47 C.F.R. § 54.407(c)(2) (2014)	"After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 60 days, or who have cured their non-usage as provided for in 47 C.F.R. § 54.405(e)(3). Any of these activities, if undertaken by the subscriber will establish 'usage' of the Lifeline service: (i) Completion of an outbound call; (ii) Purchase of minutes from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; or (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving the Lifeline service."

Attachment C

LI2016BE034

Commnet of Nevada, LLC

Limited Scope Audit on Compliance with the Federal Universal Service Fund
Lifeline Support Mechanism Rules
USAC Audit No. LI2016BE034

TABLE OF CONTENTS

DP George & Company

EXECUTIVE SUMMARY

August 9, 2017

Mr. Rohan Ranaraja, Director
Choice Communications, LLC
1001 Technology Drive
2nd Floor
Little Rock, AR 72223

Dear Mr. Ranaraja:

DP George & Company, LLC (DPG) audited the compliance of Commnet of Nevada, LLC (Beneficiary), study area code 559007, using regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. DPG's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope audit.

DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for DPG's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed five detailed audit findings (Findings) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

We appreciate the cooperation and assistance extended by your staff during the audit.

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

cc: Wayne Scott, Vice President, Internal Audit Division
Vickie Robinson, USAC Acting Chief Executive Officer
Michelle Garber, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: De-enrollment Deadline. The Beneficiary did not de-enroll all subscribers by the de-enrollment deadline.	$1,315	$1,315
Finding #2: 47 C.F.R. § 54.410(d) & 54.410(f)(2)(iii) – Improper Recertification Documentation Disclosures. The Beneficiary's subscriber recertification documentation omitted required disclosures.	$286	$286
Finding #3: 47 C.F.R. § 54.404(b) – NLAD and Form 497 Variance. The Beneficiary failed to remove subscribers from NLAD within the required time frame.	$0	$0
Finding #4: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Request. The recertification request notification did not specify that the subscriber must respond within 30 days.	$0	$0
Finding #5: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification. The non-usage notification sent to subscribers did not specify that the subscriber must cure non-usage within 30 days.	$0	$0
Total Net Monetary Effect	**$1,601**	**$1,601**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery of the Lifeline Program support amount noted in the chart above. USAC management will issue a separate memorandum to the Beneficiary to address the audit results.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Beneficiary complied with the Rules.

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its FCC Form 497 (Form 497) for August 2015 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	1,442	$27,714

Note: The amount of support reflects disbursements as of the commencement of the audit.

BACKGROUND

The Beneficiary is a competitive eligible telecommunications carrier (ETC) that operates in the Nevada.

PROCEDURES

DPG performed the following procedures:

A. Form 497

DPG obtained and examined the Beneficiary's Form 497 for accuracy by comparing the amounts reported against the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files.

B. Certification and Recertification Process

DPG obtained an understanding of the Beneficiary's enrollment, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also obtained and examined certification and/or recertification documentation for 45 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Subscriber Listing

DPG obtained and examined the Beneficiary's subscriber listing and used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the Form 497 and in NLAD.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 45 subscribers.

E. Form 555

DPG obtained and examined the Beneficiary's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported against the Beneficiary's data files.

F. Non-Usage Process

DPG obtained an understanding of the Beneficiary's non-usage process relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also examined documentation to determine whether the Beneficiary properly validated its low-income subscribers' continued use of the Lifeline-supported service.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: De-enrollment Deadline

CONDITION

DPG noted 265 subscribers on the August 2015 subscriber listing who were identified in the 2014 detailed recertification results as de-enrolled, or scheduled for de-enrollment. DPG selected a sample of 10 subscribers from this group and requested support showing their de-enrollment date and a copy of the new certification form establishing their eligibility for inclusion on the August 2015 Form 497. DPG also noted 95 subscribers on the August 2015 subscriber listing who were previously listed as de-enrolled for non-usage. DPG selected a sample of 4 subscribers from this group and requested the same support. DPG noted the following:

- The Beneficiary did not provide new certification forms for six of the selected subscribers.
- The Lifeline disconnect dates indicated by the Beneficiary for seven subscribers were not supported by a corresponding de-enrollment date in NLAD.

Without evidence indicating that these subscribers were 1) removed or 2) re-enrolled by a new certification form, DPG concluded that 9 of the 14 subscribers tested were claimed after de-enrollment for non-response or non-usage. Using the subscriber Lifeline disconnect date provided by the Beneficiary, the December 31, 2014 deadline[1] or the de-enrollment month for non-usage as the starting point, DPG determined that the Beneficiary either did not de-enroll or delayed de-enrollment by a total of 80 months for the sampled subscribers. DPG contacted the Beneficiary to provide confirmation whether the subscribers identified in our testing were claimed in the months identified outside the audit period. The Beneficiary responded that it researched several of the subscribers listed and found this to be accurate.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the recertification process and did not have adequate procedures in place to de-enroll subscribers in accordance with the rules.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	$1,315	$1,315

[1] *See Wireline Competition Bureau Reminds Carriers That They Must Re-Certify Eligibility of All Lifeline Subscribers by December 31, 2012*, Public Notice, WC Docket Nos. 03-109, *et al.*, 27 FCC Rcd 12327, 12327 (2012) (*October 2012 Public Notice*) ("ETCs and state agencies must re-certify their base of subscribers as of June 1, 2012 and must complete the recertification process by December 31, 2012."); *id*. at 12328 (recertification is "not considered 'complete'" until the ETC has de-enrolled the non-responding or ineligible subscriber). Although the FCC's *October 2012 Public Notice* specifically references December 31, 2012, the FCC did not alter the December 31 cut-off date for subsequent recertification processes.

DPG calculated the monetary effect by multiplying the number of additional months that Tribal (23 months) and Non-Tribal (57 months) subscribers were claimed on a Form 497 after the specified de-enrollment month or after December 2014 by the support amount requested on the Form 497 ($34.25 – Tribal, $9.25 – Non-Tribal) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. DPG also recommends that the Beneficiary implement policies and procedures to ensure it properly de-enrolls subscribers who fail to cure non-usage or respond to its recertification requests by the required deadlines stated in the Rules.

BENEFICIARY RESPONSE

> Beneficiary has sufficient knowledge of the rules governing the recertification process. Failure to de-enroll a subscriber from NLAD in a timely manner is an administrative error and is not a reflection of Beneficiary's overall understanding of the Rules of the Lifeline program. Since the audit period, Beneficiary has implemented procedures to ensure subscribers are de-enrolled from NLAD in a timely manner.

Finding #2: 47 C.F.R. § 54.410(d) & 54.410(f)(2)(iii) – Improper Recertification Documentation Disclosures

CONDITION

DPG examined certification documentation for a sample of 33 subscribers and recertification documentation for a sample of 12 subscribers to determine whether the documentation contained all of the required disclosures. We noted that the disclosures below were omitted from the subscriber recertification documentation:

Disclosure	Number of Affected Subscribers Recertification Documentation
Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program (47 C.F.R. § 54.410(d)(1)(i))	12
A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses (47 C.F.R. § 54.410(d)(1)(iii))	12
A household is not permitted to receive Lifeline benefits from multiple providers (47 C.F.R. § 54.410(d)(1)(iv))	12
Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscribers de-enrollment from the program (47 C.F.R. § 54.410(d)(1)(v))	12
Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person (47 C.F.R. § 54.410(d)(1)(vi))	12
Portion of disclosure omitted: "Under penalty of perjury" (47 C.F.R. § 54.410(d)(3))	12

Disclosure	Number of Affected Subscribers Recertification Documentation
The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline (47 C.F.R. § 54.410(d)(3)(i))	12
The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit (47 C.F.R. § 54.410(d)(3)(ii))	12
The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service (47 C.F.R. § 54.410(d)(3)(vi)) Form provided uses the wording "No one in my household is receiving Lifeline benefits from another provider to my knowledge"	12
The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge (47 C.F.R. § 54.410(d)(3)(vii))	12
The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to §54.405(e)(4) (47 C.F.R. § 54.410(d)(3)(ix)) Form provided uses the wording "if you fail to recertify yearly, your service may be interrupted and/or you may be required to move to a different rate plan"	12
Total	**12**

The Beneficiary must list all of the required disclosures on the subscriber recertification documentation. Because the recertification documentation did not contain the required language, the subscribers did not receive the required disclosures. Therefore, DPG cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing compliance with the required disclosures.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	$286	$286

DPG calculated the monetary effect by multiplying the number of affected subscribers tested (7 – Tribal, 5 – Non-Tribal) by the support amount requested on the August 2015 Form 497 ($34.25 – Tribal, $9.25 – Non-Tribal) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. We further recommend that the Beneficiary implement policies and procedures to ensure that it adheres to the disclosure requirements established by the Rules and provide the proper certification disclosures to its subscribers, as required by the Rules.

BENEFICIARY RESPONSE

> The FCC's rules do not require Lifeline providers to use the exact language contained in the rules governing disclosures on certification forms. This is evidenced by Section 54.410(d), which requires carriers to use "clear, easily understood language". If carriers were required to use the exact language set forth in the rules, then there would have been no need for Section 54.410(d) to require clear, easily understood language; instead, providers are permitted to use their own phrasing, as long as the substance of each disclosure and affirmation is conveyed using language that is clear and easily understood. Some of the disclosures listed as missing were actually included, just not using the exact language of the rule.
>
> Beneficiary's IVR script was designed to avoid overwhelming the customer with legalistic verbiage. Beneficiary felt that some of the disclosures would be more easily understood if they were simplified, consistent with the rules. In addition, Beneficiary worked to keep the call short so it is more user-friendly. Several of the items identified as "missing" are included in beneficialry's intial certification form, and each customer is made aware of, and certifies understanding of those items prior to receiving a Lifeline benefit. A customer's benefit should not be invalidated purely because he or she listened and responded to disclosures designed for brevity and clarity.
>
> Lastly, Beneficiary disagrees with the auditor's recommendation that USAC recover the reimbursements paid to the beneficiary for providing Lifeline to these customers. These are undoubtedly eligible subscribers, as they were confirmed as non-duplicates when they initially enrolled in NLAD. In the course of their recertification calls, these customers certified that they continue to be eligible under the program with which they originally qualified. They also certified that only one person in their household would receive Lifeline, and that providing false or fraudulent information to obtain Lifeline benefits is punishable by law. Given that these are elgibile customers who have completed substantially all required certifications, there is no justification for concluding that the support paid to the Beneficiary for serving these customers is somehow improper. The Beneficiary has provided discounted service to these customers in good faith, and should not be subject to a retroactive requirement to provide free service to legitimate customers.

However, in light of these findings, Beneficiary has updated its IVR script to further comply with all applicable requirements and fully address the concerns noted above.

DPG RESPONSE

The rules at 47 C.F.R. § 54.410(b)(1)(i) and (c)(1)(i) specify that "an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d)." Regarding the recertification process performed by the eligible telecommunications carrier, 47 C.F.R. § 54.410(f)(2)(iii) also refers to the same requirements in paragraph (d) when identifying the information that must be obtained for the recertification process. The paragraph (d) language is specific with regard to the information that should be disclosed to, obtained from, and certified by the subscriber. The Beneficiary presents these requirements in its initial application form using language that mirrors each of the requirements in the rules. The wording used in the recertification IVR does not incorporate the language used in paragraph (d) for the disclosures identified and therefore does not clearly convey the information intended by the rules. Because the Beneficiary did not comply with all of the requirements set forth in paragraph (d), the Beneficiary is not entitled to seek reimbursement for the identified subscribers. For this reason, DPG's position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 54.404(b) – NLAD and Form 497 Variance

CONDITION

DPG examined the Beneficiary's subscriber data in the National Lifeline Accountability Database (NLAD) and on the audit period subscriber listing to identify subscribers reflected in NLAD and not claimed on the August 2015 Form 497. From these subscribers, DPG identified 25 customers who were previously scheduled for de-enrollment by the Beneficiary but were listed in NLAD as of the audit period. DPG requested an explanation and related support for five of these subscribers, clarifying why the subscribers had not been removed from NLAD. The Beneficiary indicated that failure to remove these customers from NLAD in a timely manner was an administrative error. The Beneficiary is required to submit subscriber de-enrollment information to NLAD within one business day of de-enrollment.

CAUSE

The Beneficiary did not have an adequate system in place for transmitting and/or updating its existing subscriber data in NLAD. The Beneficiary indicated that failure to remove these customers from NLAD in a timely manner was an administrative error.

EFFECT

There is no monetary effect for the subscribers not de-enrolled in NLAD because these subscribers were not claimed on the Form 497. However, not de-enrolling customers in NLAD within the required timeframe creates the potential for subscribers to be flagged for duplicate resolution unnecessarily.

RECOMMENDATION

DPG recommends that the Beneficiary implement an adequate system to transmit and/or update its existing subscriber data in NLAD, and maintain adequate documentation to demonstrate compliance with the Rules.

BENEFICIARY RESPONSE

Since the audit period, Beneficiary has implemented procedures to ensure subscribers are de-enrolled from NLAD in a timely manner.

Finding #4: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Request

CONDITION

DPG examined the Beneficiary's recertification process used to report information on the January 2015 Form 555. We noted that the Beneficiary's recertification requests did not specify that the subscriber must respond within 30 days of the date of the request. The Beneficiary must inform subscribers using clear, easily understood language, that failure to respond to the recertification request within 30 days of the date of the request will trigger de-enrollment from the Lifeline Program.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the recertification process.

EFFECT

DPG is unable to calculate the monetary effect for this finding, as it is not known how many subscribers did not respond in the appropriate time period as a result of the 30-day response deadline not being communicated.

RECOMMENDATION

DPG recommends that the Beneficiary revise the language in its recertification request to clearly indicate that subscribers have 30 days to respond to the request or they will be de-enrolled.

BENEFICIARY RESPONSE

> Beneficiary was fully aware of the requirement to give subscribers a 30-day notice to complete recertification. The Beneficiary made efforts to reach customers a minimum of 30 days prior to the end of the recertification period via voice, mail and text message. All notifications alerted customers that failure to recertify would result in de-enrollment from the Lifeline program.
>
> In light of this finding, Beneficiary has updated the language of its recertification notifications to clearly indicate the deadline for recertification based on the rolling recertification requirements effective July 1, 2017.

DPG RESPONSE

The rules at 47 C.F.R. § 54.405(e)(4) specify that the recertification request sent to subscribers must notify subscribers in writing that failure to respond to the Beneficiary's recertification request within 30 days of the date of the request will trigger de-enrollment from the Lifeline Program. The Beneficiary's written notification did not include language notifying subscribers of the 30 day period to respond and therefore did not comply with the rules. For this reason, DPG's position on this finding remains unchanged.

Finding #5: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification

CONDITION

DPG examined the Beneficiary's process for tracking and de-enrolling subscribers for the non-usage results reported on the January 2015 Form 555. The non-usage notification messages the Beneficiary sent to subscribers, via both mail and text, stated that in order to retain service, the subscriber must begin using the phone immediately. The notifications did not clearly indicate that if the phone was not used in 30 days, service would be terminated. The Beneficiary must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the non-usage process.

EFFECT

There is no monetary effect for this finding, as DPG noted that while the Beneficiary did not indicate the number of days on the notification, its policy was to terminate service if non-usage was not cured 30 days after the notification.

RECOMMENDATION

DPG recommends that the Beneficiary revise the language in its non-usage notifications to clearly identify the number of days the subscriber has from the date of notification to cure non-usage and avoid service termination. The rules have been changed since the audit period and now allow only 15 days from the date of notification.

BENEFICIARY RESPONSE

> Beneficiary was fully aware of the requirement to terminate a Lifeline customer's benefits when a customer had non-usage over a 30 day period and did terminate Lifeline benefits to customers that had non-usage over a 30-day period. Beneficiary made efforts to reach customers via both mail and text messages and did not specifically reference a 30 day period to avoid customer confusion.
>
> In light of this finding, Beneficiary has updated the language on its non-usage notification to clearly indicate that subscriber must use his or her device within 15 days of the notification to avoid service termination.

DPG RESPONSE

The rules at 47 C.F.R. § 54.405(e)(3) specify that the non-usage notifications sent to subscribers must indicate in writing that the subscriber's failure to use the Lifeline service within the 30 day notice period will result in service termination. The Beneficiary's written notification did not include language notifying subscribers of the 30 day notice period to respond and therefore did not comply with the rules. For this reason, DPG's position on this finding remains unchanged.

CRITERIA

Finding	Criteria	Description
#1, #3	47 C.F.R. § 54.404(b)(6), (8), (10) (2014).	"(b) The National Lifeline Accountability Database. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: … (6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline…. (8) All eligible telecommunications carriers must update an existing Lifeline subscriber's information in the Database within ten business days of receiving any change to that information, except as described in paragraph (b)(10) of this section…. (10) When an eligible telecommunications carrier de-enrolls a subscriber, it must transmit to the Database the date of Lifeline service de-enrollment within one business day of de-enrollment."
#1, #4	47 C.F.R. § 54.405(e)(4) (2014)	"*De-enrollment for failure to re-certify.* Notwithstanding paragraph (e)(1) of this section, an eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier's attempts to obtain re-certification of the subscriber's continued eligibility as required by [47 C.F.R.] § 54.410(f)…. Prior to de-enrolling a subscriber under this paragraph, the eligible telecommunications carrier must notify the subscriber in writing separate from the subscriber's monthly bill, if one is provided using clear, easily understood language, that failure to respond to the re-certification request within 30 days of the date of the request will trigger de-enrollment. If a subscriber does not respond to the carrier's notice of impending de-enrollment, the carrier must de-enroll the subscriber from Lifeline within five business days after the expiration of the subscriber's time to respond to the re-certification efforts."
#1, #5	47 C.F.R. § 54.405(e)(3) (2014)	"*De-enrollment for non-usage.* Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as 'usage' is defined in [47 C.F.R.] § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess or collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the

Finding	Criteria	Description
		subscriber uses the Lifeline service within 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service."
#1	47 C.F.R. § 54.407(e) (2014)	"In order to receive universal support reimbursement, an eligible telecommunications carrier must keep accurate records of the revenues it forgoes in providing Lifeline services. Such records shall be kept in the form directed by the Administrator and provided to the Administrator at intervals as directed by the Administrator or as provided in this subpart."
#1	*Wireline Competition Bureau Reminds Carriers That They Must Re-Certify Eligibility of All Lifeline Subscribers by December 31, 2012*, Public Notice, WC Docket Nos. 03-109 *et al*. 27 FCC Rcd 12327, 12327 (Oct. 2012) (*October 2012 Public Notice*) (internal footnotes omitted).	"ETCs and state agencies must re-certify their base of subscribers as of June 1, 2012 and must complete the re-certification process by December 31.... The re-certification process is not considered 'complete' until the ETC has de-enrolled all subscribers that failed to respond to a re-certification request or are no longer eligible, or where a database query by the ETC or state agency indicates the subscriber is no longer eligible and the subscriber has not provided a valid re-certification pursuant to [47 C.F.R.] § 54.410(d)."
#2	47 C.F.R. § 54.407(b) (2014)	"An eligible telecommunications carrier may receive universal service support reimbursement for each qualifying low-income consumer served."
#2	47 C.F.R. § 54.410(b)(1)(i), (c)(1)(i) (2014)	"(b) *Initial income-based eligibility determination.* (1) Except where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility when a prospective subscriber seeks to qualify for Lifeline or using the income-based eligibility criteria provided for in § 54.409(a)(1) or (a)(3) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed eligibility... (c) *Initial program-based eligibility determination.* (1) Except in states where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's program-eligibility when a prospective subscriber seeks to qualify for Lifeline service using the program-based eligibility criteria set forth in § 54.409(a)(2), (a)(3) or (b) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility..."
#2	47 C.F.R. § 54.410(d) (2014)	"(d) *Eligibility certifications.* Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that in clear,

Finding	Criteria	Description
		easily understood language: (1) Provide the following information: (i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program; (iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program; (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person. (2) Require each prospective subscriber to provide the following information: (ii) The subscriber's full residential address; (iv) The subscriber's billing address, if different from the subscriber's residential address; (v) The subscriber's date of birth; (vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number; (vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; (viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in § 54.409, the number of individuals in his or her household. (3) Require each prospective subscriber to certify, under penalty of perjury, that: (i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline; (ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit; (iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days (vi) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline

Finding	Criteria	Description
		service; (vii) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge; (ix) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits."
#2	47 C.F.R. § 54.410(f)(1), (2)(iii) (2014)	"*Annual eligibility re-certification process.* All eligible telecommunications carriers must annually re-certify all subscribers except for subscribers in states where a state Lifeline administrator or other state agency is responsible for re-certification of subscribers' Lifeline eligibility. In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by: … Obtaining a signed certification from the subscriber that meets the certification requirements in paragraph (d) of this section."
#5	47 C.F.R. § 54.407(c)(2) (2014)	"After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 60 days, or who have cured their non-usage as provided for in [47 C.F.R.] § 54.405(e)(3). Any of these activities, if undertaken by the subscriber will establish 'usage' of the Lifeline service: (i) Completion of an outbound call; (ii) Purchase of minutes from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; or (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving the Lifeline service."

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

INFORMATION ITEM

Low Income Support Mechanism Business Update

Information Presented:

This information item provides the High Cost & Low Income (HCLI) Committee (Committee) with a quarterly status report on the operation of the Low Income (LI) Support Mechanism for 3rd Quarter 2017 (3Q2017). The update includes information on ongoing Lifeline operations, as well as the National Verifier implementation.

Discussion:

Program Highlights – 3Q2017

- 74% of the 9 million Lifeline subscribers in the National Lifeline Accountability Database (NLAD) are reported by service providers as having a service that meets the broadband minimum service standards (i.e., mobile broadband using 3G technology and including at least 500 MB of data, fixed broadband using 10/1 speeds with 150 G of data).
- In 3Q2017, there were 394,000 new enrollments and 431,000 de-enrollments in NLAD, for a net decrease in subscribership of 37,000.[1]
- USAC conducted rolling recertification for August, September and October anniversary dates, resulting in successful recertification rates of 56%, 57%, and 60%, respectively.
- USAC responded to various letters from Chairman Pai and Congress, identifying additional efforts to protect the program against fraud, waste, and abuse. These and other program integrity efforts identified are on track.
- The initial six states (CO, MS, MT, NM, UT, and WY) were announced for the National Verifier (NV), and the project remains on track and on budget.
- Additional operational metrics are available in **Attachment A** to this paper.

Low Income Support Mechanism Operational Update

August - October 2017 USAC Conducted Rolling Recertification

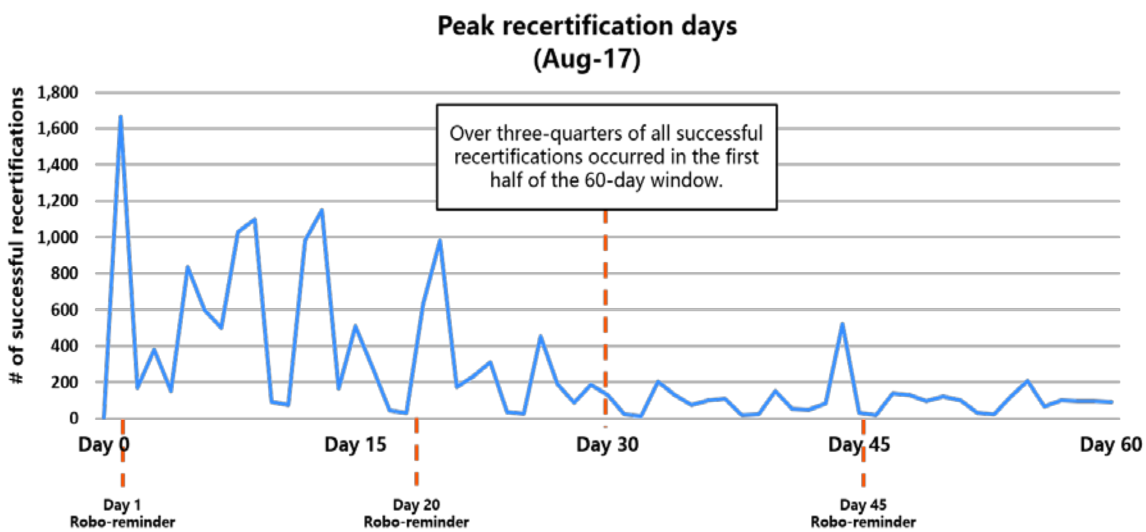
Subject to the *2016 Lifeline Modernization Order* (Order),[2] and based on service provider elections, USAC conducted recertifications for consumers with enrollment anniversary dates in August through October 2017. Results are depicted in the table below.

[1] Does not include subscribers in opt-out states of CA, TX, OR, VT.
[2] *Lifeline and Link Up Reform and Modernization Order et al.*, Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962 (2016).

Month	Study Area Codes	Subscribers	% Successfully Recertified	% Non-Responsive
August	517	33,246	56%	34%
September	524	30,735	57%	33%
October	530	31,760	60%	29%

The Federal Communications Commission (FCC) granted additional time for recertification to subscribers in Florida, Puerto Rico, and the Virgin Islands affected by recent hurricanes. The October batch above includes subscribers in Florida and Puerto Rico. As such, the successfully recertified percent metric is subject to potential increase if those subscribers originally unable to respond are able to benefit from the additional time.

As with July recertifications, which were the first batch subject to the rolling recertification model, USAC continued to experience an increased number of non-responsive subscribers as compared to prior years. By way of reminder, the Order increased the subscribers' response deadline from 30 to 60 days. As shown below, USAC's analysis showed that most responses were being received within the first 30 days, and few subscribers were taking advantage of the remaining 30 days.



As a result of this analysis, USAC has made two changes to the process.

- **Later robo-reminders to subscribers –** Beginning with the November recertification batch, which kicked off in August, robo-reminders to subscribers were shifted from the first 30 days to the last 30 days to better align with the timing of non-responsive behavior.
- **Distribution of 30-day non-response report to carriers –** Beginning with the January recertification batch, which kicked off in October, USAC will distribute this report to carriers so that they may assist in outreach to subscribers, encouraging them to respond if they are still eligible.

USAC anticipates improvements in the recertification success rates based on these changes in the coming batches.

Program Integrity Improvements

During 3Q2017, Lifeline, working in coordination with USAC's Office of General Counsel and Internal Audit Division, responded to several letters from Chairman Pai and members of Congress related to fraud, waste, and abuse in the Lifeline Program. USAC has committed to a number of activities associated with protecting the integrity of the Lifeline Program, and these activities have been implemented or on schedule as described below.

- Began rejecting FCC Forms 497 reporting subscribers in excess of NLAD effective with the August data month reported in September 2017. As a result of this activity, USAC rejected 77 forms. Of the 77 rejected forms, 49 companies filed a lower revision.
- Issued letters to a subset of providers, requesting documentation they used to manually verify a consumer's identity when the automated identity verification had failed. Responses were due on October 6th, and an update on the outcome of this review will be provided at the Committee meeting.
- Issued letters to providers associated with the 10 addresses used by 500 or more subscribers to enroll in the program. USAC has determined that these addresses are group homes, shelters, or religious institutions. USAC will ensure these providers have collected the required one-per-household certifications. Responses are due on November 21st.
- Updated the USAC website with a comprehensive listing of states that provide eligibility checking services or databases, and distributed a newsletter to service providers to advise them of their requirement to use these sources prior to resorting to manual documentation review.

In addition to the activities above, USAC also identified an opportunity to tighten controls in NLAD when a subscriber name is changed. Name changes now require the subscriber to be de-enrolled and re-enrolled for refreshed checks of identity and duplicate verifications. Previously, this check was limited to changes in the last four social security number and date of birth.

As required by the Order, Lifeline is developing new functionality that makes NLAD subscribership the basis of reimbursement claims, rather than the FCC Form 497. This functionality will be operational for the January 2018 data month (February 2018 disbursements), and will apply to all service providers. The system will require service providers to directly base their reimbursement claims on the subscribers they have validated in the NLAD. As described below, USAC has worked with service providers to ensure the new functionality is user friendly while balancing the goals of increased program integrity.

Program Outreach and Customer Service

In 3Q2017 Lifeline worked to enhance the consumer's experience by providing a more robust web-based report for "Companies Near Me," which allows a consumer to search for companies offering Lifeline service in their area. Previously, this search was only available at the state level, but it has been enhanced to be available at the zip code level. This report will be available by the end of October 2017.

Lifeline also worked with service providers to solicit design input on the creation of the new disbursement process based on NLAD subscribership. USAC first held discussions with a variety of service providers representing a cross section of the Lifeline industry (e.g., large, mid-sized and small; sophisticated billing systems and manual processes; urban and rural; diverse subscriber bases) to understand how service providers currently determine their FCC Form 497 claims and how the new process could lessen the burden. Based on the insight from those conversations, USAC designed an initial disbursement claim process, which it then demonstrated for service providers to validate and iterate upon the initial design. Additional feedback was incorporated and used in the final NLAD design needed to support the new process. In September, USAC released the system changes to a pre-production environment so that service providers could interact with the screens on a test basis and begin to modify their processes.

In addition to the proactive activities described above, Lifeline continues to provide customer service to those program participants that reach out for help and guidance. Between May 2017 and July 2017, consumer call volumes appeared to stabilize at approximately 17,000 calls per month. However, USAC has identified a correlation between increases in subscriber activity and increases in call volume. As rolling recertification concluded for the first batch of subscribers with July anniversary dates, call volume in August 2017 increased to 24,000 calls from 17,000 in July 2017. Lifeline anticipates that activity associated with its *Lifeline Safeguards Plan,*[3] where the Program Integrity Team will reach out to more carriers to validate subscriber eligibility in the program, will generate additional calls from consumers who have been asked to provide documents or have been de-enrolled as a result of USAC's review.

Appeals

At the start of 3Q2017, Lifeline had 25 workable appeals averaging approximately 350 days in age. In 3Q2017, USAC resolved 18 of these appeals and received no new appeals, leaving the quarter-end with seven appeals averaging approximately 230 days in age. The seven appeals can be categorized as follows:

- 3 – Dispute administrative actions taken by USAC associated with program integrity reviews.

[3] The *Lifeline Safeguards Plan* is a plan that was developed in response to Chairman Pai's July 2017 letter to USAC, which addressed findings included in the recent Government Accountability Office (GAO) Lifeline report.

- 3 – Dispute the merits of Payment Quality Assurance (PQA), Beneficiary and Contributor Audit Program (BCAP), or Office of Inspector General (OIG) audit findings associated with required Lifeline documentation.
- 1 – Disputes USAC's rejection of an untimely downward revision to the FCC Form 497.

Appeals can be labor intensive to evaluate, which has led USAC to examine ways to streamline the review process. In addition to training additional staff to perform the review of appeals, Lifeline is considering other ways to improve the efficiency of the process, such as pre-vetting proposed decisions with the approvers prior to spending time on drafting and identifying opportunities to create more templates for common responses.

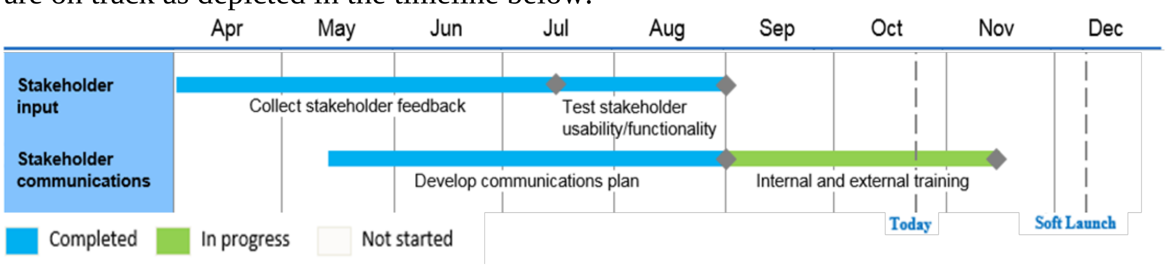
National Verifier (NV) Project Update

Key Milestones

The National Verifier project remains on track for its December 5th soft launch. On August 31st, USAC announced the six states that will be included in the initial launch. In addition, USAC has contracted with the Business Process Outsourcing (BPO) vendor, and stand-up of the operations are underway. Finally, outreach activities related to feedback and collection of input wrapped up in 3Q2017, and we are now pivoting in October to training on the finalized system and processes.

Program Outreach

Activities associated with the collection of input from stakeholders, the development of communications and training materials, and the implementation of the training schedule, are on track as depicted in the timeline below.



In 3Q2017, the Lifeline team used the insights and recommendations from earlier feedback sessions to design elements of the National Verifier processes, tools, and forms. USAC then shared the proposed designs with stakeholders to validate that we understood their feedback correctly and had applied it successfully where appropriate. Throughout the process, some of the feedback was not incorporated into the final processes and designs, and USAC communicated with stakeholders where we were unable to implement their requests.

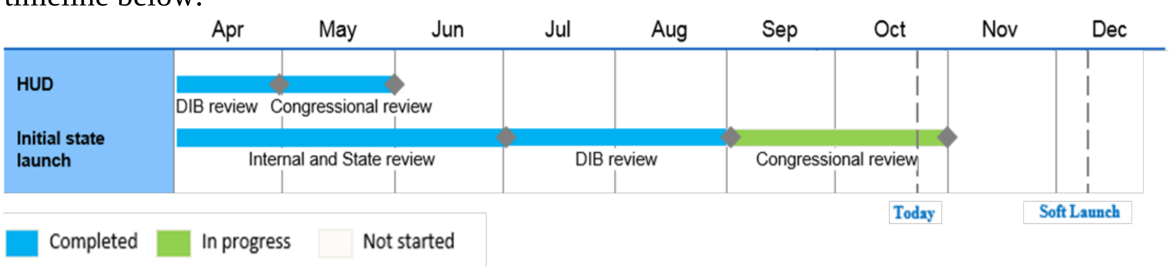
More specifically, to design the consumer and service provider online portals, USAC sought input from users on draft designs called wireframes and on draft process flows. USAC then tested working prototypes with the users to ensure the design and functionality met their needs and was easy to use. Throughout the process, USAC worked with the FCC to ensure buy-in on the designs and approach.

Before designing the Lifeline paper forms, USAC reviewed existing applications from a variety of states and service providers to gather best practices and understand common user needs. USAC also held calls with state partners, consumer advocates, and service providers, learning that most Lifeline forms are difficult for consumers to understand. USAC's goal was to create paper forms that met Lifeline's requirements and that would be accessible and understandable to Lifeline consumers. Using plain language and design best practices, USAC designed an application form, independent economic household worksheet, and recertification form. The forms were first validated and tested with the FCC, service providers, consumer advocates, and state partners. After incorporating their feedback, USAC tested the forms with individual Lifeline consumers for further refinement.

With the processes, systems, and forms in their final design state, the Lifeline team has begun transitioning from build and design activities to training activities. To help stakeholders successfully use the National Verifier, USAC designed a training series that includes live training sessions via webinar, how to guides, updated web content and short videos. Beginning in early 4Q2017, the Lifeline team will roll out these trainings to internal and external system users.

State & Federal Engagement

Activities associated with the development of computer matching agreements (CMA) with any available federal data sources and the initial states are on track as depicted in the timeline below.



On August 31, 2017, USAC announced that Colorado, Utah, Mississippi, New Mexico, Montana, and Wyoming will be in the initial National Verifier launch. USAC entered into CMAs with the first four states as well as the Department of Housing and Urban Development (HUD). The table below describes the Lifeline qualifying programs for which these CMAs will provide automated eligibility verification in each state. Where automated eligibility verification is not possible, the BPO will conduct review of consumer-submitted documentation.

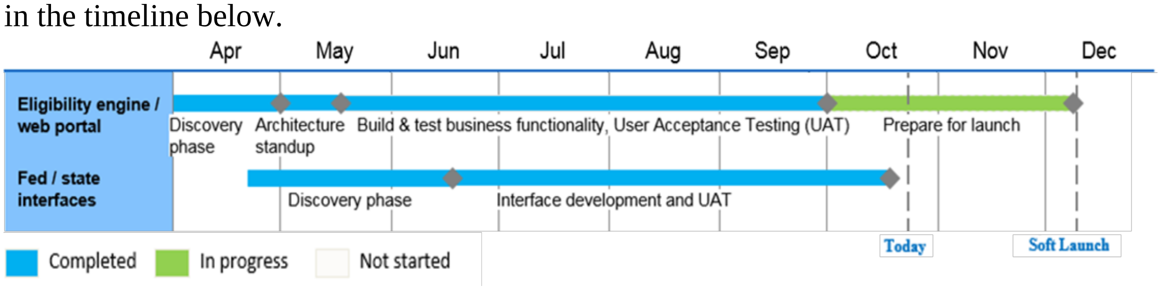
State	Qualifying Programs with Automated Data Sources
Colorado	SNAP, Medicaid, Federal Public Housing
Mississippi	SNAP, Federal Public Housing
Montana	Federal Public Housing
New Mexico	SNAP, Medicaid, Federal Public Housing
Utah	SNAP, Medicaid, Federal Public Housing
Wyoming	Federal Public Housing

The CMA for HUD is fully completed, having received approvals from Congress and the Office of Management and Budget (OMB). The CMAs for the four states are approved by Congress and OMB and are currently within the 30-day public comment period in the Federal Register, which concludes in early November.

USAC and the FCC have begun working on the strategy for future launches of the National Verifier. In 2018, USAC will roll an additional 19 states into the National Verifier, supported by a combination of federal interfaces, state interfaces, and manual processes. USAC is continuing to pursue CMAs with additional federal and state agencies, and expects to launch a next wave in 2Q2018.

Technical Build

Activities associated with the technical build of the National Verifier System, including the eligibility engine and portal that will be used to interact with users, and the federal and state data interfaces to conduct the verification of eligibility, are on track as depicted in the timeline below.



During the soft launch period of December 5th through March 13th, service providers are able, but not required, to use the National Verifier to verify the eligibility of new consumer applicants. Because this is an optional period, consumers will be unable to apply directly to the National Verifier during the soft launch. This prevents the risk of a consumer applying through the National Verifier and then attempting to enroll with a service provider who has not yet converted to the National Verifier, causing confusion or re-work for the consumer.

To date, Accenture, the system integrator supporting the National Verifier, has completed five of eight technical milestones on time and with high quality in support of the December 5th launch. The remaining milestones include the soft launch milestone of December 5th, the hard launch milestone of March 13th, and the following 90-day warranty milestone.

Features completed in the most recent milestone include:

- Full end-to-end testing of the interfaces with HUD and all but one state.
- Fully tested functionality for the service provider portal, used to facilitate subscriber Lifeline application submission, eligibility verification, and enrollment in NLAD.

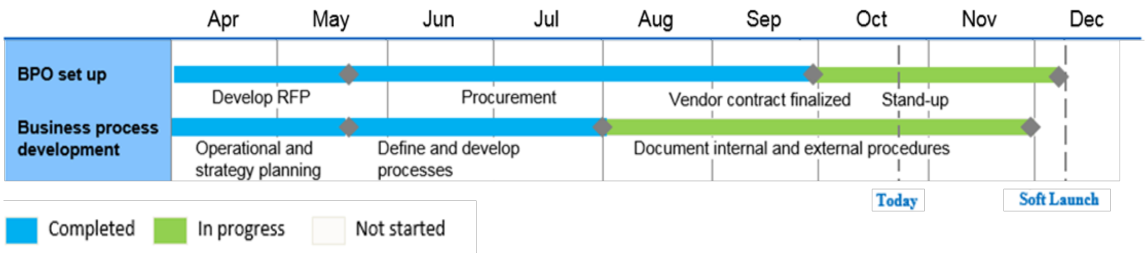
Features scheduled for the soft launch milestone include:

- Full functionality for BPO back end processes.
- Full end-to-end testing of the remaining state interfaces.
- Re-verification of existing subscribers in NLAD.

The hard launch milestone will include the final, fully tested consumer portal functionality, including that which is used to support annual recertification.

Operations

Activities associated with procurement and stand up of the BPO and development of processes associated with the National Verifier framework are on track as depicted in the timeline below. We experienced a delay in the projected contract negotiation timeline with Conduent, however, we have worked with the vendor to mitigate the risk to the overall implementation of the BPO as discussed below.



USAC executed the contract with the BPO, Conduent, in early October 2017. This was later than originally anticipated in the project schedule. Throughout the contract negotiation, USAC and Conduent took steps to mitigate the impact of the schedule slippage. Where the original plan had included all BPO stand up activities to be completed by the soft launch of December 5th, USAC and Conduent worked to identify the must-have functions for December 5th, and created a later milestone for deferred features or processes to be completed by the hard launch of March 13th. These include activities associated with recertification, which will not kick-off for the BPO until March 2018, and select functionality within the interactive voice response (IVR) or customer service screens and queues that will be better informed after a few months of operations.

In addition to standing up the BPO, USAC has worked to develop internal processes to measure and monitor the impact of the National Verifier. These measures tie directly to the National Verifier objectives stated by the FCC in the Order. Below, we share a draft set of metrics that we intend to use to evaluate the framework in the categories of program integrity, user experience, and cost-effectiveness. In some cases, the same metric serves to measure success across multiple objectives. Because the National Verifier is an entirely new framework, USAC will initially baseline these metrics based on actual activity, and will then work to improve upon those baselines over time.

Program Integrity:

- Manual reviews versus automated eligibility verifications
  - Percentage of subscribers whose eligibility required manual verification – The goal is to minimize this result so that the majority of eligibility is based on automated, credible sources.
  - Percentage of manual eligibility verifications for programs with an available data source – The goal is to minimize this result so that we reduce the risk of fraudulent attempts to circumvent the automated checks.
  - Trend analysis of outliers by state, Eligible Telecommunications Carrier (ETC), and agent – This metric is a leading indicator that there is a broader problem, and further research into root causes is required.
- Quality Assurance Metrics

   - Manual review error rate by BPO staff – The goal is to minimize errors by BPO employees that could result in either an ineligible subscriber receiving the benefit, or an eligible subscriber being denied.
   - Applications flagged by BPO for potential fraud and outcome of analysis – This informational metric will tell us if the applications the BPO is flagging are the right ones for further research.

Cost Effectiveness:

- Manual reviews versus automated eligibility confirmations
   - Percentage of subscribers whose eligibility required manual verification – The goal is to minimize this result, as manual reviews are more expensive than automated reviews.
   - Percentage of manual eligibility verifications for programs with an available data source – The goal is to minimize this result, as we are investing in automated interfaces to avoid the cost of manual review.
- Variable Unit Volumes
   - Variance between monthly volume forecast and actual results – The goal is to minimize the variance, generally, to ensure we are effectively predicting and planning for costs.
   - Variance between budget and actual results – The goal is to remain at or below budget.
   - Measures of repeat contacts per subscriber (repeat customer service instances or instances of repeated attempts to apply for eligibility) – The goal is to minimize this result so that we do not incur unnecessary cost where an issue could be resolved on the first contact.

User Experience:

- Manual reviews versus automated eligibility confirmations
   - Percentage of subscribers whose eligibility required manual verification – The goal is to minimize this result to provide a faster and less burdensome verification experience to the consumer.
   - Average manual review time – The goal is to minimize this result for consumers requiring manual review.
- Average speed-to-answer (phone) – The goal is to minimize this result for a positive consumer experience.
- Customer satisfaction rates, where collected (online and phone) – The goal is to maximize positive consumer satisfaction reports.

Lifeline Business Update

iHCLI04a – Operational Metrics

October 23, 2017

Universal Service
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Lifeline Scorecard – Q3 2017 (through August)

Briefing book excludes all materials discussed in Executive Session

Aggregated performance is the composite of multiple metrics	G	Y	R	NA
	On-track	At-Risk	Off-track	Future Metric

Performance Measurement Model

PROGRAM OUTCOMES

GOAL #1: Encourage affordable broadband and broadband bundled services for low-income households to enable essential participation in society.

Measurement Category	Target	Status
% of Lifeline Subscribers receiving Broadband Internet Access Service (BIAS)	33% by 12/31/2017	G

GOAL #2: Continuously improve system and results-oriented business controls for program integrity to minimize fraud, waste, and abuse.

Measurement Category	Target	Status
Refer to Program Integrity metrics below	Aggregated Performance	Y

OPERATIONAL MEASURES

PROGRAM INTEGRITY

Implement division-wide controls and leverage key metrics to mitigate operational risks and proactively address areas of potential waste, fraud and abuse

Measurement Category	Target	Status
% Enrollments w/ Dispute Resolution	< 7.0%	G
Subs with duplicate addresses	< 19 %	G
Ratio of FCC Form 497 to NLAD Subscribership	93-98%	Y
Improper Payment Rate	NA	NA
% Audits with Monetary Findings	< 50%	R

USER EXPERIENCE

Strengthen and simplify user experience to enable successful participation

Measurement Category	Target	Status
USAC Recertification Rate	> 70%	NA
Number of Complaints	NA	NA
Severity 1 Incidents	0	G

OPERATIONAL EFFECTIVENESS

Continuously improve the efficiency and effectiveness of business processes

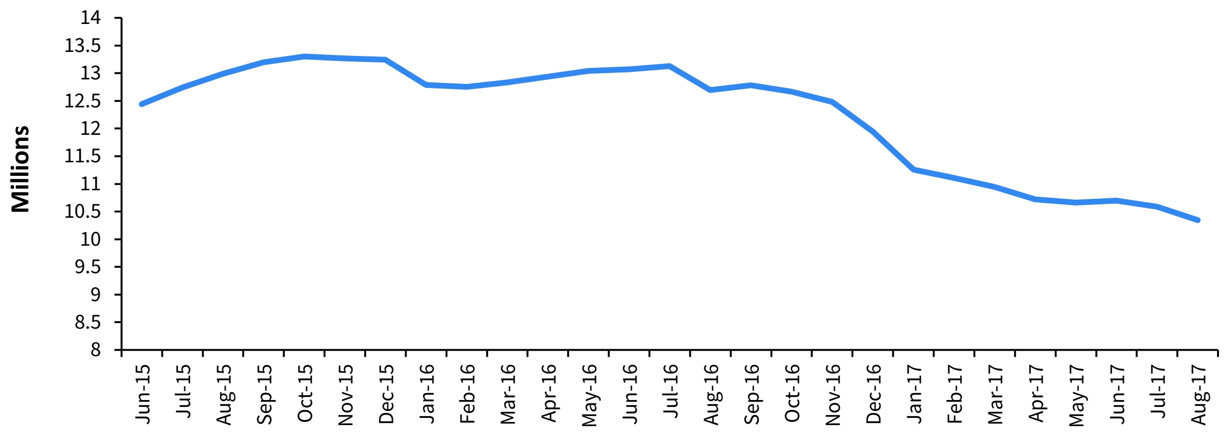
Measurement Category	Target	Status
Customer Service	Aggregated Performance	G
$ Value of Disbursements	< $2.25B	G
Admin Expense as % of Funding	< 2%	NA
Age of Workable Appeals	< 90 days	R
NLAD Uptime %	>99%	G

Briefing book excludes all materials discussed in Executive Session

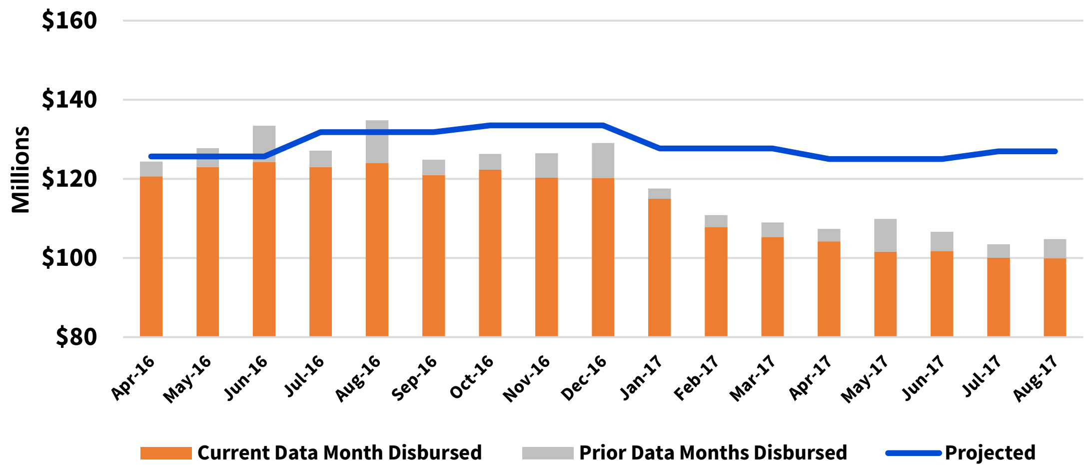
Lifeline Subscribership & Disbursements

This slide based on Form 497 data.

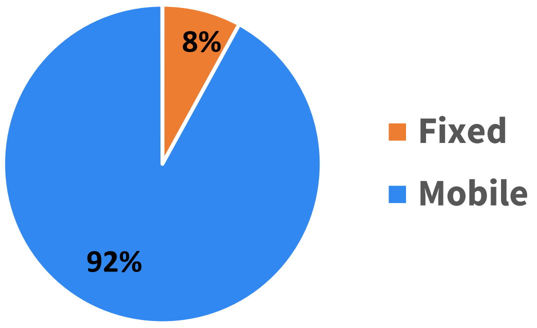
Subscribership



Disbursements



Fixed / Mobile Disbursement Breakdown



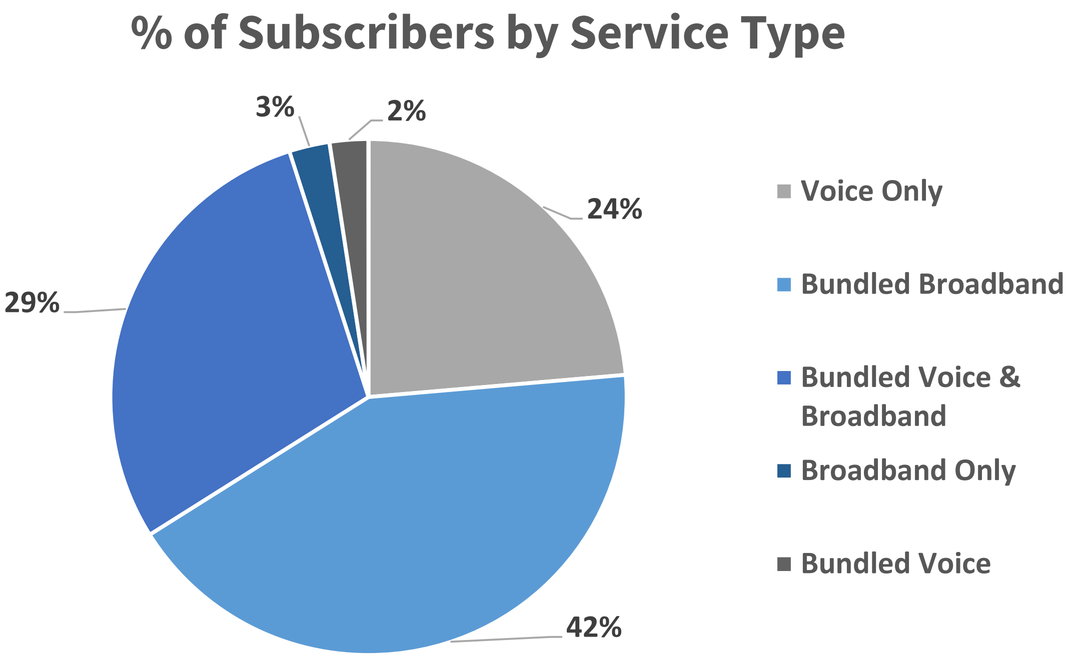
Key Takeaways

- Lifeline is re-evaluating its demand projection formula to better align with the trends in subscribership.

Lifeline Subscribership by Service Type (Broadband Uptake)

This slide based on subscribers as reported in NLAD.

	June 2017	July 2017	August 2017		
Service Type	**% of Subscribers**	**% of Subscribers**	**# of Subscribers**	**% of Subscribers**	**+/- from Previous Month**
Voice Only	27.9%	26.3%	2,061,711	23.4%	-2.9%
Bundled Broadband	**37.1%**	**39.0%**	3,732,008	**42.0%**	+3.0%
Bundled Voice & Broadband	**29.6%**	**29.5%**	2,516,126	**28.7%**	-0.8%
Broadband Only	**3.0%**	**2.7%**	221,770	**2.5%**	-0.2%
Bundled Voice	2.4%	2.5%	208,464	2.4%	-0.1%
Total Broadband Subscribers	**69.7%**	**71.2%**	6,469,904	**74.0%**	
Total			8,740,079		



- Broadband Only – Broadband service meeting minimum service standards
- Bundled Voice – Broadband and voice, only meeting voice minimum service standards
- Bundled Voice & Broadband – Broadband and voice, both meeting minimum service standards
- Bundled Broadband – Broadband and voice, only meeting broadband minimum service standards
- Voice only – Voice service meeting minimum service standards

Lifeline NLAD Operations

Briefing book excludes all materials discussed in Executive Session

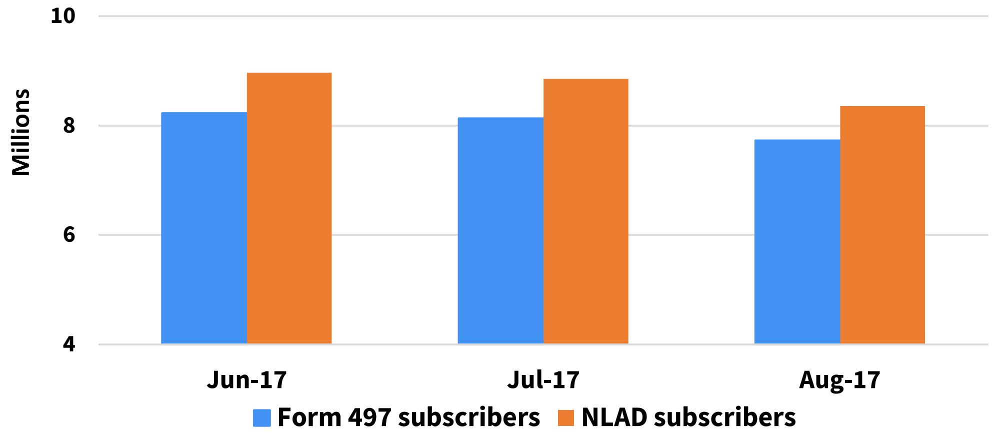
% Enrollments Subject to Dispute Resolution

	Q1 2017	Q2 2017	Q3 2017
Enrollments + Transfers	553,804	523,484	612,722
Enroll/Transfer w/Dispute Resolution	39,671	45,318	47,233
% of Enrollments + Transfers	**7.2%**	**8.7%**	**7.7%**

Enrollments subject to dispute resolution are those that required TPIV (Third Party Identification Verification), invalid address, and port freeze exception dispute ticket approval.

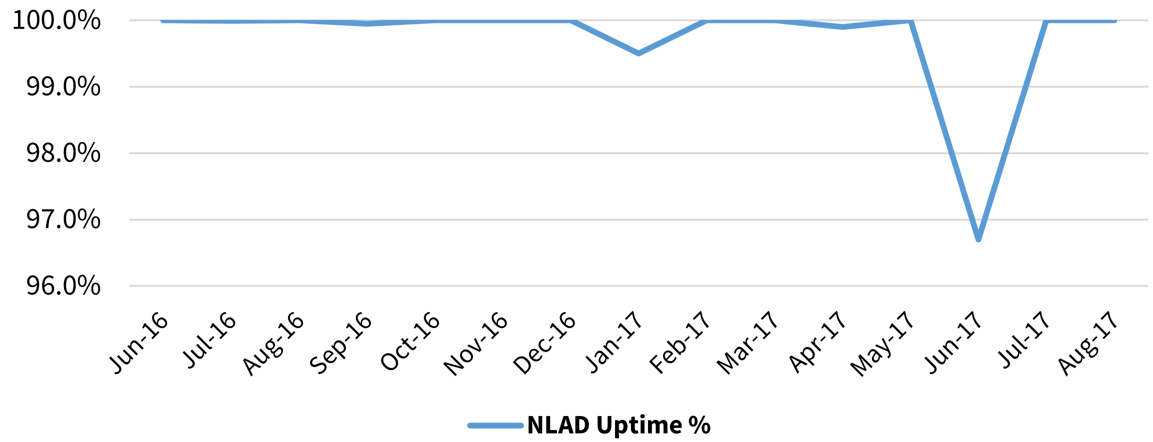
**all figures are monthly averages within each quarter*

NLAD Subscribers vs. Form 497 Claims



Based on Form 497 claims received from carriers for the data month, and corresponding NLAD subscribers on relevant snapshot date (excludes filers who failed to file).

NLAD Uptime %



Key Takeaways

- In September, USAC began reaching out to a subset of carriers that used dispute processes. USAC will validate the carriers' manual review results.
- Beginning with August Form 497s, claims that exceed the SAC's NLAD subscriber count are being rejected.

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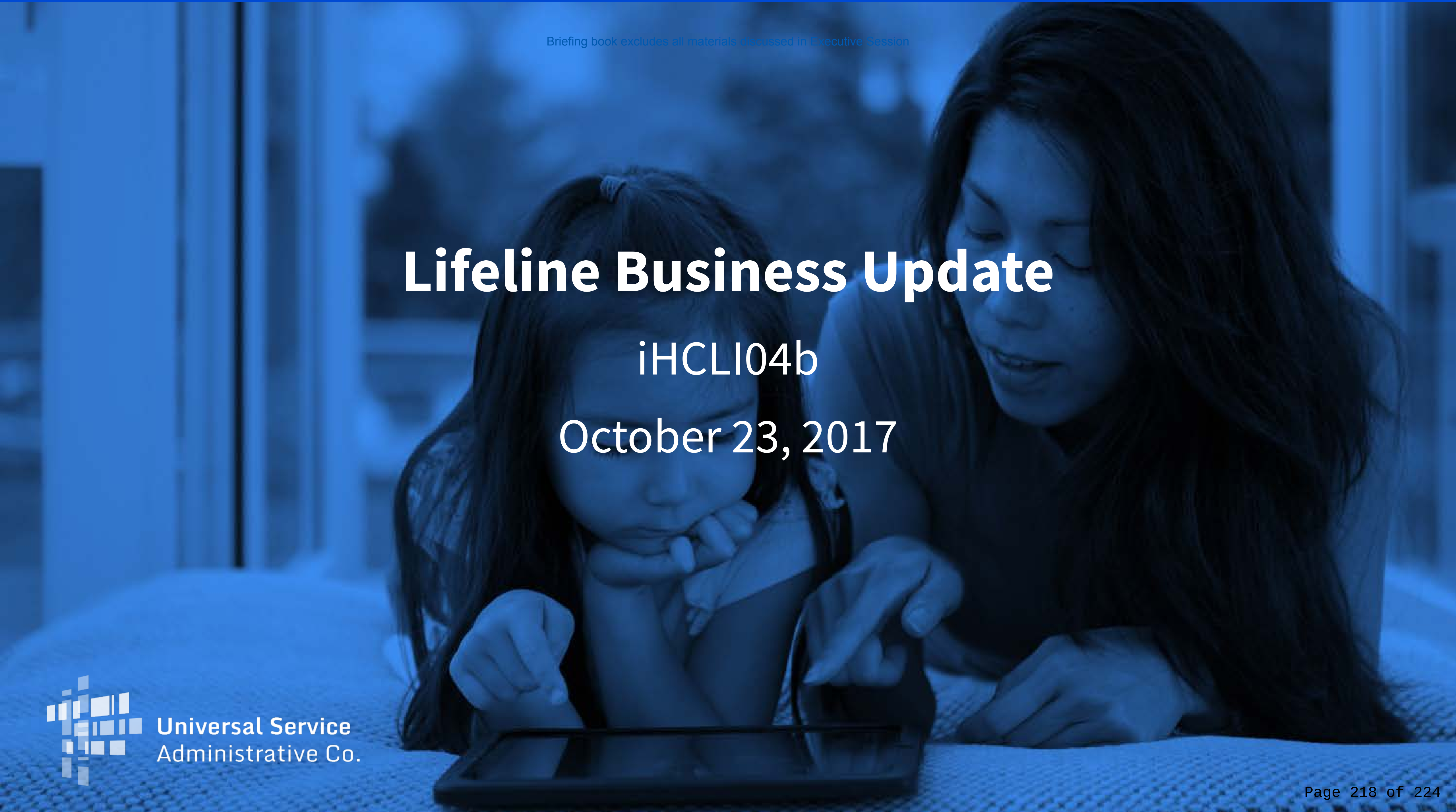

Lifeline Business Update

iHCLI04b

October 23, 2017

Universal Service
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Agenda

1. Rolling Recertification Update
2. Program Integrity Efforts
3. National Verifier
4. Key Operational Metrics

Rolling Recertification Update

USAC completed recertification for carrier-elected subscribers with anniversary dates in August through October 2017.

Month	Study Area Codes	Subscribers	% Successfully Recertified	% Non-Responsive
August	517	33,246	56%	34%
September	524	30,735	57%	33%
October	530	31,760	60%	29%

To improve upon the non-responsive challenge, USAC has made the following changes:

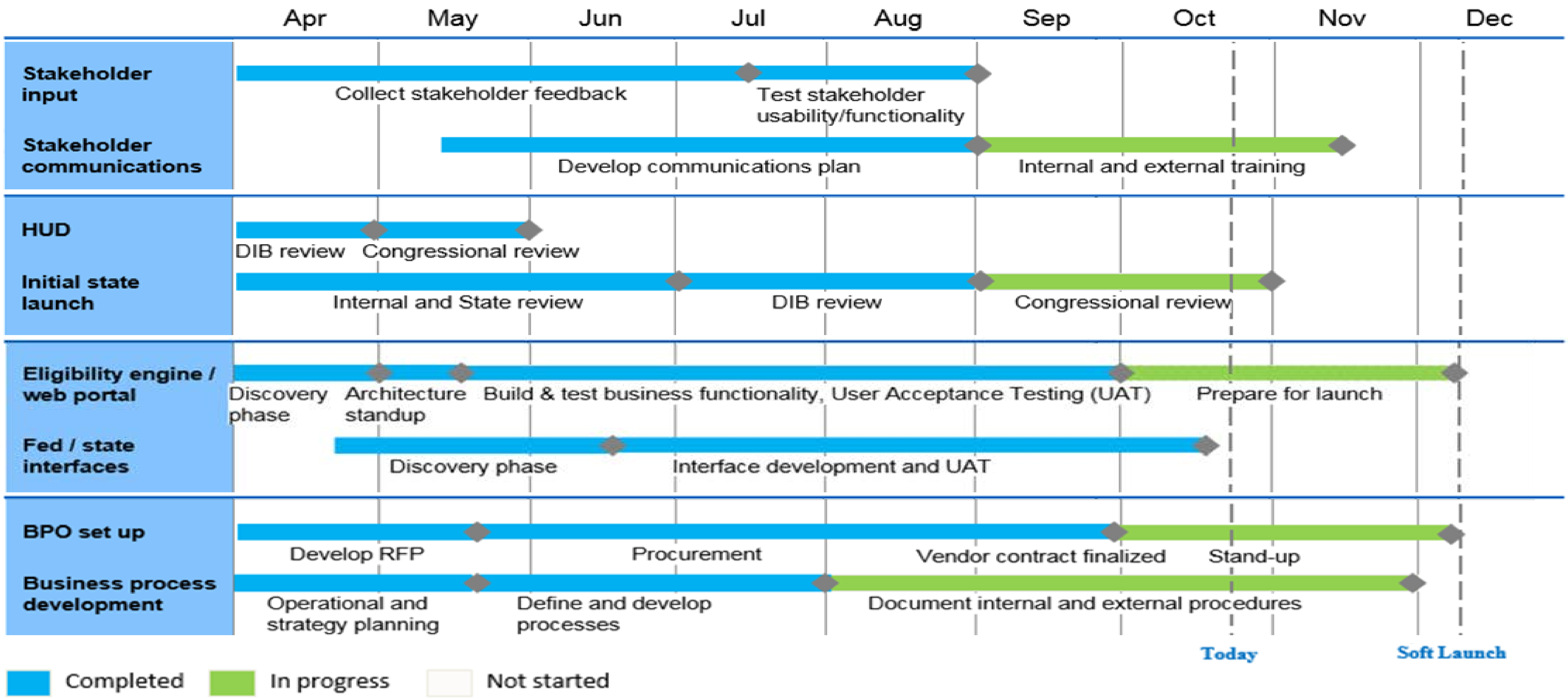
- November batch – later robo-reminders
- January batch – non-response reports to carriers for help with outreach

Program Integrity Efforts

In its continuing effort to protect the program from instances of fraud, waste, and abuse, USAC implemented the following changes in 3Q2017.

- Rejection of FCC Forms 497 with subscribership in excess of NLAD
- Sampling of provider determined identity verification
- Verification of shared addresses in excess of 500
- Updated website and notified providers of requirement to use available state eligibility verification processes and systems

National Verifier Update



Key National Verifier Metrics

Program Integrity:

- Percentage of subscribers whose eligibility required manual verification
- Trend analysis of outliers by state, ETC, and agent
- Manual review error rate by BPO staff
- Applications flagged by BPO for potential fraud and outcome of analysis

Cost Effectiveness:

- Percentage of subscribers whose eligibility required manual verification
- Variance between monthly volume forecast or budget and actual results
- Measures of repeat contacts per subscriber

User Experience:

- Percentage of subscribers whose eligibility required manual
- Average processing time (applications, time to answer calls, etc.)

Briefing book excludes all materials discussed in Executive Session

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