



# High Cost and Low Income Committee

## Audit Briefing Book

Monday, July 23, 2018

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, 20005

*Summary of Low Income Support Mechanism Beneficiary Approved Audit Reports: April 2, 2018 - May 31, 2018*

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Blue Jay Wireless LLC	2	<ul style="list-style-type: none"> <li>• <b>Form 497 and NLAD Variance.</b> The Beneficiary claimed subscribers on the audit period subscriber listing who were not active in NLAD. The Beneficiary also failed to remove subscribers from NLAD within the required time frame.</li> </ul>	\$180,737	\$7,557	\$7,557	N
Hopi Telecommunications, Inc.	3	<ul style="list-style-type: none"> <li>• No material findings.</li> </ul>	\$12,138	\$613	\$613	N
i-Wireless LLC – NY	0	<ul style="list-style-type: none"> <li>• No findings.</li> </ul>	\$1,429,153	\$0	\$0	N/A
Nsightel Wireless LLC	2	<ul style="list-style-type: none"> <li>• No material findings.</li> </ul>	\$7,662	\$0	\$0	N
Telscape Communications, Inc. (Attachment A)	2	<ul style="list-style-type: none"> <li>• <b>Duplicative Support.</b> The Beneficiary claimed support on its Form 497 more than once for the same individual.</li> </ul>	\$3,143,187	\$7,946	\$7,946	Y
YourTel America, Inc.	0	<ul style="list-style-type: none"> <li>• No findings.</li> </ul>	\$137,501	\$0	\$0	N/A
<b>Total</b>	<b>9</b>		<b>\$4,910,378</b>	<b>\$16,116</b>	<b>\$16,116</b>	



# Telscape Communications, Inc.

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Limited Scope Audit on Compliance with the Federal Universal Service Fund  
Lifeline Support Mechanism Rules  
USAC Audit No. LI2016BE028

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DRAFT

CONFIDENTIAL

EXECUTIVE SUMMARY

May 21, 2018

Mr. Nathan Johnson  
Telscape Communications, Inc.  
1149 S. Hill Street  
Suite 400  
Los Angeles, CA 90015

Dear Mr. Johnson,

DP George & Company, LLC (DPG) audited the compliance of Telscape Communications, Inc. (Beneficiary), study area code 549011, 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) 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.

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  
Radha Sekar, USAC Chief Executive Office  
Michelle Garber, USAC Vice President, Lifeline Division

**AUDIT RESULTS AND RECOVERY ACTION**

Audit Results	Monetary Effect	Recommended Recovery
<b>Finding #1: 47 C.F.R. § 54.409(c) – Duplicative Support.</b> The Beneficiary claimed support on its Form 497 more than once for the same individual.	\$7,946	\$7,946
<b>Finding #2: 47 C.F.R. § 54.416(b) – Inaccurate Form 555 Reporting.</b> The results reported on the Form 555 were not supported by the Beneficiary’s detailed non-usage results.	\$0	\$0
<b>Total Net Monetary Effect</b>	<b>\$7,946</b>	<b>\$7,946</b>

**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 June 2015 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	339,804	\$3,143,187

*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 California.

**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 California state database 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 or comparable state database.
- 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. § 54.409(c) – Duplicative Support**

CONDITION

DPG examined the Beneficiary's subscriber listing to determine whether the Beneficiary reported the correct number of subscribers on the Form 497. DPG utilized computer assisted auditing techniques to identify combinations of the same subscriber name, address, telephone numbers, birth dates and last four digits of Social Security Number (SSN) that represented potential duplicates. DPG identified 878 instances where the information contained in the subscriber listing indicated that the Beneficiary may be claiming the same individual more than once on the Form 497 (DPG noted nine instances where a subscriber was claimed three times, and one instance where a subscriber was claimed four times). The Beneficiary reviewed the listing of 878 instances and provided support to clear four of the potential duplicates.

CAUSE

The duplicate subscriber analyses performed by the California Public Utilities Commission (PUC) and the Beneficiary did not recognize the following matching combinations as potential duplicate subscribers:

- Records where the last name, date of birth, and last four digits of SSN fields matched
- Records where the address, date of birth, and last four digits of SSN fields matched

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	\$7,946	\$7,946

DPG calculated the monetary effect by multiplying the number times a subscriber was claimed more than once (885) by the average support amount requested on the June 2015 Form 497 (\$9.25) and rounded to the nearest whole dollar. DPG calculated the number of times subscribers were claimed more than once as follows: duplicate subscribers (864), triplicate subscribers (9 X 2 = 18) and quadrupled subscribers (1 X 3 = 3)

Note: In its response to the finding, the Beneficiary identified 26 instances where DPG’s analysis picked up the same duplicate more than once. Removing these 26 instances reduced the monetary effect from \$8,186 to \$7,946.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. We further recommend that the Beneficiary implement additional internal analysis of its subscriber listing to ensure it claims Lifeline Program support only for eligible subscribers who are not already receiving Lifeline service.

BENEFICIARY RESPONSE

**THE DRAFT AUDIT REPORT ERRONEOUSLY SEEKS TO RECOVER LIFELINE SUPPORT FROM TRUCONNECT FOR LIFELINE SERVICE TRUCONNECT PROVIDED TO SUBSCRIBERS APPROVED BY THE CALIFORNIA THIRD PARTY ADMINISTRATOR**

The Audit Report's Finding No. 1 (the "Finding") erroneously concludes that TruConnect sought support, from the federal Lifeline program (Lifeline), more than once for certain Lifeline subscribers (the "Audited Subscribers") and recommends TruConnect be required to refund \$8,186.00 in Lifeline support.<sup>1</sup> As an initial matter, the auditor's count of alleged "duplicates" itself is inaccurate due to 26 internal duplicate pairs. Moreover, the fact is that, TruConnect appropriately sought support for the Lifeline services provided to the Audited Subscribers. The California Public Utility Commission's ("CPUC") third party administrator ("Administrator") reviewed and approved the Audited Subscribers as eligible for Lifeline service. The Administrator is the sole entity in California with authority to determine the eligibility of subscribers, and it must approve each subscriber submitted by an ETC. Because the Administrator approved these subscribers, a finding that the Audited Subscribers were duplicates ineligible for Lifeline service has no valid basis. Consistent with CPUC requirements, TruConnect provided Lifeline services to the Audited Subscribers and therefore is permitted to seek Lifeline support for those services.<sup>2</sup>

Moreover, to the extent there are similarities in subscriber data, such similarities may reflect inadvertent subscriber errors or intentional subscriber efforts to obtain service in violation of Lifeline program rules. In either event, the subscriber, not TruConnect, is liable for any violations related to mistakenly obtained Lifeline services. Any questions regarding enrollment approval for such applications must be directed to the Administrator which has sole responsibility for reviewing and approving Lifeline enrollments in California. Finally, although TruConnect was under no obligation to do so, the Company has since voluntarily implemented additional measures to try to prevent and eliminate duplicates in its Lifeline services.

*The Auditors' Count of the Audited Subscribers Erroneously Contains Internal Duplicates*

As a preliminary matter, the auditor's count of the Audited Subscribers contains errors and, as a result, the amount of Lifeline support the auditors recommend be recovered from TruConnect also is inaccurate. The auditors concluded that TruConnect submitted Lifeline support claims more than once for 864 subscriber pairs. However, a simple analysis of the Audited Subscribers list reveals that 26 subscriber pairs were included twice in the auditor's count. Consequently, there were only 838, not 864, unique subscriber pairs. If USAC were to accept the auditor's finding at face value, TruConnect erroneously would be deemed liable for an overinflated number of alleged duplicates and required to refund more support than it actually would have received from the Lifeline program. The auditors' inability to provide an accurate count of Audited Subscribers, even after almost a year and a half of reviewing data, is concerning. Even if the Finding was not erroneous on substantive grounds as discussed

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<sup>1</sup> Telscape Communications, Inc., Limited Scope Audit on Compliance with the Federal Universal Service Fund Lifeline Support Mechanism Rules, USAC Audit No. LI2016BE028, at 5 (Draft Audit Report).

<sup>2</sup> See e.g., Order Instituting Rulemaking Regarding Revisions to the California Universal Telephone Service (LifeLine) Program, Decision Adopting Revisions to Modernize and Expand the California lifeline Program, Decision 14-01-036 at 178 (CPUC Jan. 16, 2014).

below, this error, on a simple yet fundamental aspect of the audit – the number of subscribers and amount of Lifeline support at issue in the Finding – illustrates the questionable nature of the Finding,

*The CPUC Uses a Third Party Administrator to Approve Lifeline Enrollments and the Administrator Approved all of the Subscribers Served by TruConnect*

Unlike in some states, California has established a third party administrator and given it sole responsibility for determining subscriber eligibility to participate in the Lifeline program, including conducting annual recertifications and identifying subscribers that must be de-enrolled due to ineligibility.<sup>3</sup> Lifeline providers in California are required to utilize the Administrator to confirm a subscriber’s eligibility for participation in the Lifeline program and to de-enroll subscribers when advised by the Administrator.<sup>4</sup> This use of a third party administrator is the control that ensures Lifeline subscribers in California meet eligibility requirements when first initiating service and that the subscriber remains eligible during the entire time they participate in the Lifeline program.

Consistent with the CPUC’s requirements, when enrolling subscribers, TruConnect collects applicant information and submits the application to the Administrator for real time review, whereupon, the Administrator provides preliminary and final approvals. If an application is denied, TruConnect ceases providing services and does not seek Lifeline support for the subscriber. TruConnect utilized this application process for each of the Audited Subscribers. Accordingly, each of the Audited Subscribers was reviewed by the Administrator and approved for enrollment.

*The Administrator Approved Each of the Audited Subscribers for Lifeline Service After Conducting a Comprehensive Duplicates Check*

The Administrator is responsible for confirming that Lifeline subscribers do not receive duplicative Lifeline service. After reviewing the Audited Subscribers’ applications, and presumably conducting the duplicates review process referenced below, the Administrator did not deem any of the Audited Subscribers to be duplicates. Consequently TruConnect provided Lifeline services to these subscribers and is permitted to receive Lifeline support for the services it provided.

The FCC requires all states to utilize the FCC’s National Lifeline Accountability Database (NLAD) unless a state demonstrates it has “a system in place to detect and

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<sup>3</sup> See e.g., *Order Instituting Rulemaking Into Implementation of Federal Communications Commission Report and Order 04-87, As It Affects The Universal Lifeline Telephone Service Program*, Rulemaking 04-12-001, Decision 05-04-026 (CPUC Apr. 7, 2005).

<sup>4</sup> See e.g., *Order Instituting Rulemaking Regarding Revisions to the California Universal Telephone Service (LifeLine) Program*, Decision Adopting Revisions to Modernize and Expand the California lifeline Program, Decision 14-01-036 at 116 (CPUC Jan. 16, 2014) “all pre-paid and post-paid providers, regardless of the type of telephone service provisioned, must still go through the California LifeLine Administrator to enroll and determine a consumers’ California LifeLine or federal Lifeline eligibility.”

eliminate duplicative support” and therefore is permitted to opt out of the NLAD.<sup>5</sup> The CPUC sought the right to opt-out of the NLAD program, stating it had in place duplicates checks processes to prevent a subscriber from receiving more than one Lifeline discount.<sup>6</sup> The CPUC’s 2013 opt-out petitions described a comprehensive duplicates check process involving real-time duplicate checks of several subscriber data points and monthly scrubs, across all service providers, to identify and resolve any duplicates.<sup>7</sup> The duplicates check process included, among other steps, review of the following data points: (i) consumer’s entire name, (ii) consumer’s telephone number, (iii) consumer service address, and (iv) operating carrier number (OCN).<sup>8</sup> If a consumer match – of name/address or name/telephone number – was detected, the CPUC would suspend eligibility determination processing until the subscriber returned a household unit form.<sup>9</sup> Moreover, the Administrator would issue error codes to the provider when a duplicate was detected and suspend further processing of the application until the error code was cleared.<sup>10</sup>

If the Administrator had identified any of the Audited Subscribers as potential duplicates, TruConnect would have been prevented from completing the enrollment process at various points in the Administrator’s duplicates checks process – such as when the Administrator was verifying a subscriber’s household unit form or until any error code was resolved. Accordingly, TruConnect could not have provided Lifeline service to the Audited Subscribers if the Administrator had determined the subscribers were duplicates.

In granting the CPUC’s opt-out request, the FCC concluded that the CPUC’s system “is comprehensive and at least as robust as the processes adopted by the Commission in the *Lifeline Reform Order*, and is capable of detecting and eliminating duplicative support.”<sup>11</sup> If the FCC, which has made it a prime objective to eliminate “waste, fraud and abuse” in the Lifeline program, deems the CPUC’s duplicates check process to be effective at identifying and eliminating duplicates, there should be no doubt that TruConnect’s reliance on the Administrator’s duplicates check when providing Lifeline service to subscribers was reasonable.

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<sup>5</sup> See e.g., *In re: Lifeline and Link Up Reform and Modernization*, Order, ¶12, 28 FCC Rcd 11188 (WCB Aug. 1, 2013) (“CPUC NLAD Opt Out Extension Order”). See also, *Lifeline and Link Up Reform and Modernization et al.*, 27 FCC Rcd 6656 (2012) (2012 Lifeline Reform Order).

<sup>6</sup> See Supplement to the California Public Utilities Commission and the People of the State of California Petition to Opt Out of National Lifeline Accountability Database at 7, WC Dockets 11-42, 03-109, 12-23, CC Docket 96-45 (Feb. 13, 2012) (CPUC NLAD Opt Out Supplement).

<sup>7</sup> See Petition of the California Public Utilities Commission and the People of the State of California to Opt Out of National Lifeline Accountability Database at 2-3, WC Dockets 11-42, 03-109, 12-23, CC Docket 96-45 (Dec. 3, 2012) (CPUC NLAD Opt Out Petition).

<sup>8</sup> *CPUC NLAD Opt Out Petition* at 3.

<sup>9</sup> *CPUC NLAD Opt Out Petition* at 3.

<sup>10</sup> *CPUC NLAD Opt Out Supplement* at 7-8.

<sup>11</sup> See *CPUC NLAD Opt Out Extension Order* and *In re: Lifeline and Link Up Reform and Modernization*, 28 FCC Rcd 02012 (WCB March 4, 2013) (“CPUC NLAD Opt Out Order”).

*Moreover, the FCC has not Defined Subscriber Accounts with Variations in Subscriber Data as “Duplicates”*

Even if TruConnect chose to disregard the Administrator’s Lifeline subscriber approvals TruConnect had no reason to classify the Audited Subscribers as duplicates. The Audited Subscribers’ accounts contained variations in material subscriber data points such as first name, last name, address or social security numbers.<sup>12</sup> As explained below, the FCC has not defined “duplicates” to include subscriber accounts that appear similar but have variations in subscriber data. Consequently, on their face, the Audited Subscribers were not duplicates and TruConnect appropriately sought Lifeline support for the services provided to the Audited Subscribers. The auditor’s second-guessing of subscribers based solely on data similarity (with no independent research or evidence) is unfounded.

Although the FCC has sought to eliminate and prevent duplicative Lifeline enrollment, the FCC has not defined what constitutes a duplicate nor has it provided any guidance regarding whether two subscriber records that are similar but contain variations in one or more data points would be classified as a “duplicate” subscriber. The FCC’s *2011 Duplicative Payments Order* adopted a rule stating that a “qualifying customer” cannot receive more than one Lifeline-supported service but left the term “qualifying customer” undefined.<sup>13</sup> Similarly ambiguous was the FCC’s statement that the rule applied to “duplicative Lifeline subsidies received by the *same individual*”, because “same individual” is another undefined term.<sup>14</sup>

The scant guidance that has been provided, by the Wireline Competition Bureau (the “Bureau”) to the Universal Service Administrative Company (“USAC”) in the context of conducting in-depth data validations (“IDV”), also does not define accounts with variations in subscriber data as duplicates.<sup>15</sup> The *Guidance Letter* identifies two categories of “duplicates”: (i) Track 1 - same individual, same address, two or more service providers and (ii) Track 2 - different individuals, same address.<sup>16</sup> Similar to the FCC’s *2011 Duplicative Payments Order*, the *Guidance Letter* does not address whether similar account records with variations in customer data are classified as “duplicates.”

Consequently, even if TruConnect chose to ignore the Administrator’s enrollment approvals, the Audited Subscribers’ accounts are not duplicates under any applicable legal standard. The auditor’s “finding” amounts to nothing more than a suspicion that certain information is similar. Notably, in the exit conference, the

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<sup>12</sup> The FCC requires service providers to collect several data points from subscribers including: first and last names, address, date of birth, and last four digits of the subscriber’s social security number. See e.g., *2012 Lifeline Reform Order*, ¶ 118.

<sup>13</sup> *In re: Lifeline and Link Up Reform and Modernization*, 26 FCC Rcd 9022, ¶18 (2011) (“2011 Duplicative Payments Order”).

<sup>14</sup> *2011 Duplicative Payments Order*, ¶ 1.

<sup>15</sup> See Letter from Sharon E. Gillett, Chief, Wireline Competition Bureau, to D. Scott Barash, Acting Chief Executive Officer, USAC, 26 FCC Rcd 8588 (WCB June 21, 2011) (“Guidance Letter”).

<sup>16</sup> *Guidance Letter* at 8590-8592.

auditors stated that the proposed finding is not based on any independent research or evidence, but rather is based solely on their subjective determination that certain records appear similar enough. This is not a sufficient basis for an audit finding under generally accepted government auditing standards (GAGAS).<sup>17</sup> GAGAS requires that auditors rely on evidence that is both appropriate and sufficient to provide a reasonable basis for their audit findings:

**6.56 Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.**

**6.57 The concept of sufficient, appropriate evidence is integral to an audit. Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objectives. In assessing the overall appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. In assessing the sufficiency of evidence, auditors should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.**<sup>18</sup>

While GAGAS provides some deference to an auditor's judgment, the auditor's subjective determination – unsupported by independent research or evidence – should not be deemed to have met the GAGAS standard as the auditor's conclusion simply is not based on "appropriate" or "sufficient" evidence.

Moreover, the fact that the California Administrator approved the Audited Subscribers should be deemed evidence that there were no duplicates. GAGAS is again instructive, describing as "reliable" "[e]vidence obtained through the auditors' direct physical examination, observation, computation, and inspection", "evidence obtained from an individual who is not biased and has direct knowledge about the area" and "[e]vidence obtained from a knowledgeable, credible, and unbiased third party."<sup>19</sup> The Administrator meets these criteria and its subscriber approvals should be considered appropriate and sufficient evidence that the Audited Subscribers are not duplicates. The Administrator is an unbiased third party with direct knowledge of the Lifeline program and eligibility criteria and the Administrator directly reviewed and examined the Audited Subscriber data. The evidence resulting from the Administrator's actual review of subscriber data and determination that there were no duplicates is appropriate and sufficient to support a finding that there the Audited Subscribers were not duplicates.

*TruConnect Provided Multiple Lifeline Services, as Evidenced by the Unique Telephone Numbers Associated with the Audited Subscribers, and is Entitled to Lifeline Support for Those Services*

<sup>17</sup> See Government Auditing Standards, 2011 Revision (Dec. 2011) ("GAGAS").

<sup>18</sup> GAGAS Secs. 6.56-6.57 (emphasis added).

<sup>19</sup> GAGAS, Secs. 6.61(b), (e) and (f).

TruConnect provided a separate Lifeline service to each of the Audited Subscribers and is entitled to receive Lifeline support for those services. A review of the Audited Subscriber list identifies unique telephone numbers for the subscribers and each unique telephone number represents a separate Lifeline service that TruConnect provided. Specifically, the Audited Subscriber list contains 1704 unique telephone numbers that were activated for the Audited Subscribers. These 1704 unique telephone numbers account for 99.88% of the total number of Audited Subscriber accounts.<sup>20</sup> Consequently, these accounts represent separate, valid Lifeline service provided to the subscriber. TruConnect activated the telephone numbers and provided service in accordance with CPUC requirements and the subscriber received the benefit of the service. Accordingly, TruConnect cannot now be penalized for that compliance by being forced to refund support received for validly-provided Lifeline services.

*Any Similarities in the Audited Subscriber List may Reflect Subscriber Error or Fraudulent Enrollment and the Subscribers are Liable for any Resulting Violation of LifeLine Program Rules*

Even if the subscribers in an Audited Subscriber pair are the same person, seeking to recover Lifeline support from TruConnect is inappropriate. When accepting new Lifeline subscriber applications, providers like TruConnect must rely on the subscriber to provide accurate data on the application. This data is then provided to the Administrator for review and a duplicates check. TruConnect has no authority to reject a subscriber's application or question the Administrator's decision regarding an applicant's eligibility for Lifeline service. To the extent an applicant mistakenly – or even purposely - provides erroneous information, resulting in a violation of Lifeline program rules, the subscriber – not TruConnect - is liable for such violation.

The FCC recognizes that duplicative Lifeline enrollments can be caused by subscriber actions and holds the subscriber, not the service provider, liable for these violations. FCC rules limit eligible subscribers to one-Lifeline supported service per household.<sup>21</sup> In 2013, the FCC initiated enforcement actions and issued in excess of three hundred (300) Citations and Orders to Lifeline subscribers found to have obtained Lifeline services from multiple Lifeline providers.<sup>22</sup> Each Citation and Order noted it was the subscriber's obligation to "certify[y], under penalty of perjury", that the subscriber and other members of the subscriber's household were not already receiving Lifeline service and that "all of the information in the application was truthful."<sup>23</sup> The FCC

<sup>20</sup> A review of the Audited Subscriber list identified 2 subscriber pairs with non-unique telephone numbers which represent a miniscule 0.001% of the total Audited Subscriber telephone numbers and an even smaller fraction – less than 0.000013% of TruConnect's total Lifeline claims on the September 2015 Form 497.

<sup>21</sup> See 47 C.F.R. §54.409(c). See also, e.g., 2011 Duplicative Payments Order.

<sup>22</sup> See e.g., *In re: M. Brown Illegal Receipt of Duplicate Lifeline Support*, File No. EB-13-IH-0971, DA 13-1204 (May 30, 2013) ("M. Brown Citation"); *In re: A. McDonald Illegal Receipt of Duplicate Lifeline Support*, File No. EB-13-IH-0965, DA 13-1198 (May 30, 2013) ("A. McDonald Citation"); *In re: L. Morris; Illegal Receipt of Duplicate Lifeline Support*, File No. EB-13-IH-0964, DA 13-1197 (May 30, 2013) ("L. Morris Citation").

<sup>23</sup> See, e.g., *M. Brown Citation*, ¶ 2; *A. McDonald Citation*, ¶ 2; *L. Morris Citation*, ¶ 3.

expressly found that it was the *subscriber* that violated the Lifeline program's rules by obtaining duplicative Lifeline services and making false certifications on the Lifeline application.<sup>24</sup> The Citations and Orders did not contain any statements concluding, or even suggesting, that the Lifeline provider was in any way liable for violation of the Lifeline program rules in connection with the subscriber's actions.

In preparing this response, TruConnect reviewed its records associated with the Audited Subscriber enrollments and determined that the enrollments were handled by twenty-five (25) of TruConnect's master agents, each of whom is trained in the proper procedures for enrolling subscribers. The review did not identify any evidence of collusion among TruConnect's agents to fraudulently enroll the Audited Subscribers. Moreover, as TruConnect explained in its audit responses, during the time period covered by the audit, TruConnect provided field personnel with a robust Code of Conduct, prohibiting fraudulent activities and identifying consequences for violations. The Company also required all of its employees to adhere to applicable law and prohibited illegal and unethical activities, including fraud. Currently, the Company requires all employees and field personnel to adhere to a written Code of Ethics which identifies the Company's stance against fraud and identifies the consequences for violations.

Any similarities in the Audited Subscriber accounts may reflect innocent subscriber error such as occurs when a subscriber loses their phone and mistakenly believes it is no longer subscribed to service and then re-enrolls. The similarities also could be the result of a subscriber's purposeful intent to fraudulently receive multiple Lifeline services. Regardless of the subscriber's innocent mistake or malicious intent, TruConnect is not liable for subscriber actions resulting in similarities in subscriber enrollments or even actual duplicates. TruConnect was entitled to seek Lifeline support for the services it provided to the Audited Subscribers and should not be required to refund any validly obtained support from the Lifeline program. Instead, either the subscriber - or possibly the Administrator which approved the enrollments – must be held liable for any Lifeline program violations associated with the similar Audited Subscriber accounts.

*TruConnect Continually Works to improve Its Processes to Prevent Duplicate Enrollments*

TruConnect recognizes the importance of the Lifeline program to its subscribers and seeks to ensure it complies with Lifeline program requirements so that it can continue to provide these critical services to its subscribers. Although not required to do so - in light of the CPUC's use of a third party administrator to review and approve Lifeline enrollments - TruConnect continually takes steps to improve its methods for preventing duplicative enrollments in the Lifeline program.

TruConnect has implemented quality controls in its existing systems to attempt to detect duplicate subscriber enrollments. By way of example, during the Lifeline enrollment process, TruConnect voluntarily conducts a review of its internal active

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<sup>24</sup> See, e.g., M. Brown Citation, ¶ 3; A. McDonald Citation, ¶ 3; L. Morris Citation, ¶ 3.

subscriber database to ensure new applicants are not duplicates of TruConnect's current active subscribers. This internal check is in addition to the Administrator's own duplicates review of California's Lifeline records. TruConnect also implemented an internal process to identify duplicates prior to completing the monthly 497 Form to seek Lifeline support. The enrollment platform TruConnect currently uses has multiple duplicate check processes in place, including a real-time review of all submitted orders, which seek to eliminate such duplicates—even if approved by the Administrator -from being included in the reimbursement rolls.

### *Conclusion*

The facts here are straightforward and logically lead to the conclusion that TruConnect was entitled to seek support for the Lifeline services it provided:

- (1) TruConnect is required to utilize the Administrator when enrolling Lifeline subscribers in California;
- (2) the Administrator did not find the Audited Subscribers to be duplicates and approved them for Lifeline service,
- (3) TruConnect provided Lifeline service to the Audited Subscribers and appropriately sought Lifeline support for those services.

TruConnect is not required to refund the Lifeline support it received for providing Lifeline services and any questions regarding the Audited Subscribers must be addressed with the Administrator.

### DPG RESPONSE

DPG disagrees with the Beneficiary's conclusion that "the facts here are straightforward and logically lead to the conclusion that TruConnect was entitled to seek support for the Lifeline services it provided." The rules at 47 C.F.R § 54.409(c) indicate the following:

"In addition to meeting the qualifications provided in paragraph (a) or (b) of this section, in order to constitute a qualifying low-income consumer, **a consumer must not already be receiving a Lifeline service**, and there must not be anyone else in the subscriber's household subscribed to a Lifeline service."

The rules are clear that qualifying low-income consumers should not already be receiving a Lifeline service. To determine whether any consumers claimed by the Beneficiary were already receiving Lifeline service during the audit period, DPG analyzed the subscriber listing provided from the Beneficiary's records in support of the June 2015 Form 497 claim. We compared data in five specific fields: First Name, Last Name, Address, Date of Birth (DOB), and Last Four SSN to identify instances where the same consumer may have been claimed more than once.

- For 873 of the 874 consumers identified by our finding, the information contained in the DOB and Last Four SSN fields on the subscriber listing were identical matches. In our experience, an identical match on both DOB and Last Four SSN is the strongest matching combination of information indicating that two consumers are the same individual.
- We identified 3 or more matches in the five fields reviewed for 726 of the 874 duplicate scenarios contained in the finding.
- For the 148 consumers with less than 3 matches included in the finding, we performed additional analysis prior to presenting our preliminary listing of duplicates to the Beneficiary that identified either

names were reversed between the first and last name fields or the spelling of either the name or address fields were slightly different. When combined with the fact that the DOB and Last Four SSN were identical we believed there was a reasonable basis to conduct further inquiry with the Beneficiary for these 148 consumers and subsequently to include them in the finding.

DPG presented an initial listing of potential duplicates to the Beneficiary that identified 878 sets of consumers. DPG asked the Beneficiary to review the listing and indicate in the comments section of the listing whether the consumer was claimed twice or provide support indicating that the consumers listed were not the same person. DPG received the following:

- The Beneficiary provided a “Yes” response for 838 of the potential duplicate sets indicating that they were the same individual claimed twice during the audit month.
- The Beneficiary indicated that for 26 of the potential duplicate sets, one or more of the consumers in the set was claimed twice but it could not determine if the person was a duplicate and explained that the individual was listed as eligible on the California Weighted Average Report (WAR) indicating they were accepted by the Administrator.
- The Beneficiary provided an updated Last Four SSN for one but not both of the consumers listed for 9 of the potential duplicate sets.
- The Beneficiary provided an explanation and/or additional support for the remaining 5 potential duplicate sets explaining why it felt the consumers were not duplicates.

Based on our review of the responses provided, DPG removed 4 of the initial duplicate sets from the listing.

DPG disagrees with the Beneficiary’s assertion that we did not obtain sufficient evidence to form a reasonable basis for our finding. We obtained direct evidence from the Beneficiary in the form of a subscriber listing extracted by the Beneficiary from its own records and presented as the basis for the June 2015 Form 497 claim. We performed analytical review procedures over the subscriber listing provided and identified a list of potential duplicates contained within the listing. The use of analytical review procedures is an accepted testing procedure followed by auditors conducting testing under both GAGAS and AICPA standards. DPG then inquired with the Beneficiary regarding the consumers in question. Again, inquiry with the auditee to obtain further explanation or evidence is an established audit practice under both GAGAS and AICPA standards. We received a response from the Beneficiary agreeing that 838 of the 878 potential duplicate sets identified in our preliminary listing were in fact the same individual. Where support was identified to validate the unique identity of a consumer, DPG removed the consumer from the preliminary listing of potential duplicates. We combined direct evidence produced by the Beneficiary’s system, analytical review procedures and further inquiry with the Beneficiary to determine the 874 consumers identified in the finding. All of these are considered acceptable audit procedures under GAGAS and AICPA standards.

We disagree with the Beneficiary’s assertion that the finding is based on “a suspicion that certain information is similar.” As previously indicated, the matching results for the 874 duplicate instances identified in the finding reflect that in 873 instances, the DOB and Last Four SSN reflected on the subscriber listing were not just similar, they were identical. We identified three or more matches in the five fields reviewed for 726 of the 878 duplicate sets presented to the Beneficiary for further inquiry and we obtained verification from the Beneficiary that 838 of the preliminary duplicate sets presented to them for further review were the same individual. Where there were fewer than three matches, DPG conducted individual analysis identifying that either names were reversed between the first and last name fields in the records provided or the spelling of either the name or address fields contained slight differences. When combined with the fact that the DOB and Last Four SSN were identical we believed there was a reasonable basis to include these individuals in the finding.

We agree with the Beneficiary that when preparing our analysis of the information fields, we picked up the same consumer more than once as a result of the process used to identify matching information across multiple fields. We have adjusted the Effect section of the finding accordingly to remove the 26 subscribers identified in the Beneficiary's response.

DPG disagrees with the Beneficiary's assertion that the determination of eligibility by the California TPA eliminates responsibility on the part of the Beneficiary for determining if a consumer is already receiving a Lifeline service or is being claimed more than once on its Form 497 submission. The preparation and submission of the Form 497 constitutes a process separate from the eligibility approval process performed by the California TPA and derives from the records maintained by the Beneficiary. The Form 497 requires the Beneficiary to certify "that the data contained in this form has been examined and reviewed and is true, accurate, and complete" and that "my company is in compliance with all of the Lifeline program rules." DPG considers 47 C.F.R § 54.409(c) to be one of the rules the Beneficiary certifies compliance with when submitting its Form 497 claim. We also consider it reasonable to expect that because the Form 497 submission is produced from the Beneficiary's own systems and records, it has controls in place to ensure that the same consumer is not claimed more than once on the Form 497 submission. The Beneficiary indicates in its response that it "implemented an internal process to identify duplicates prior to completing the monthly 497 Form to seek Lifeline support." Based on our testing, the process used by the Beneficiary to identify duplicates prior to the Form 497 submission was not sufficient to identify instances where the same consumer was claimed more than once for the audit period.

For these reasons, DPG's position on this finding remains unchanged.

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## **Finding #2: 47 C.F.R. § 54.416(B) – Inaccurate Form 555 Reporting**

### CONDITION

DPG examined the Beneficiary's detailed recertification results and detailed non-usage results to determine whether the Beneficiary could substantiate the number of subscribers reported on the January 2015 Form 555. When reviewing the detailed non-usage results provided by the Beneficiary in support of the Form 555, DPG noted 3,228 subscribers who were listed as de-enrolled more than once in a three-month (90-day) period or were listed as de-enrolled for non-usage multiple times within the same month. DPG noted that 3,131 of the subscribers identified were reflected as de-enrolled for non-usage in both September and October. The Form 555 should only report non-usage for subscribers who have been de-enrolled.

DPG also noted, when reviewing the Form 555, that the Beneficiary included subscribers who were, (1) activated after February 2014, and (2) de-enrolled during the course of 2014 when reporting subscribers under Block D (*Number of subscribers de-enrolled prior to recertification attempt by either the ETC, a state administrator, access to an eligibility database, or by USAC*) of the Form 555. Based on the February 2014 Form 497 filing, the Beneficiary was only responsible for providing information related to 765 subscribers but reported 62,720 subscribers under Block D.

### 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.

## 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

Draft Finding No. 2 identified three issues, one of which reflects a misunderstanding of the California-specific Lifeline service features in place during the time period covered by the audit and the remaining two of which involved typographical errors that are unlikely to reoccur.

Draft Finding No. 2 includes a notation that TruConnect's non-usage information, provided in support of its Form 555, included subscribers listed as de-enrolled more than once within a 90-day period, or de-enrolled multiple times within the same month.

Notably, during the time period covered by the audit, California did not have a 60-day port freeze requirement, and as a result, subscribers tended to move from carrier to carrier without restriction. Consequently, it was possible for subscribers to sign on for Lifeline service with TruConnect, but subsequently, and within the same month, transfer their Lifeline discount to another carrier. TruConnect was permitted, under the Federal Communications Commission (FCC) rules, as a Lifeline provider, to claim a subscriber on a Form 497 once the subscriber was approved for enrollment and makes a first call using the service. Accordingly, if a subscriber enrollment with TruConnect was approved in September and the customer made the first call, TruConnect was permitted to claim and seek the full \$9.25 of Lifeline support for that subscriber on the September 497. Moreover, the Lifeline provider was permitted to continue claiming that subscriber as long as the subscriber had not de-enrolled prior to one month from their initial sign up date. For example, if a subscriber was approved for enrollment and made a first call on September 10, that subscriber could be claimed in October, and each month thereafter, as long as the subscriber did not de-enroll before the 10th of each month.

As alluded to above, on occasion, subscribers may have chosen to enroll with TruConnect for Lifeline service and chosen shortly thereafter to move to a different Lifeline carrier, or otherwise fail to continue to qualify for continuing Lifeline services with TruConnect resulting in de-enrollment. Subscriber de-enrollment could have reflected a variety of causes including the subscriber's termination of service based on their own volition. Alternatively, the Administrator may have determined that the subscriber no longer qualified for service due to reasons such as: subscriber receiving duplicate service, subscriber transfer to another carrier, a subsequent recertification failure, failure to confirm additional informational requests by the Administrator, etc.

As a result, it is not uncommon for a California Lifeline provider's records to indicate multiple de-enrollments within a short period of time.

The two issues reflecting typographical errors involved minor transcription errors on the Form 555. First, Draft Finding No. 2 notes that certain subscribers appear to have been reported on the January 2015 Form 555 as de-enrolling for non-usage in both September and October. As TruConnect explained during the audit, during the time TruConnect was completing the January 2015 Form 555, TruConnect had transitioned between third party billing systems and believes these de-enrollment figures may reflect the difficulties inherent in such a transition. As such, due to the change in billing system, there is a possibility that the individual compiling the Form 555 data pulled information from both systems and included such data in the Form 555 report filed in 2015. As TruConnect noted in its prior response on this issue, its review of these de-enrollments revealed that the vast majority of these subscribers - in excess of 90% - were *not claimed on either the September or October Form 497*. As TruConnect is no longer transitioning between billing systems, it does not anticipate a reoccurrence of this typographical error.

Finally, Draft Finding No. 2 also identified a transcription error resulting in an incorrect number being reported in Block D of the Form 555. Specifically, an incorrect number was mistakenly included when TruConnect reported the number of subscribers de-enrolled prior to recertification attempt by either the ETC, a state administrator, access to an eligibility database, or by USAC. TruConnect makes every effort to ensure it accurately completes all required Lifeline forms. TruConnect has taken steps to ensure that its Form 555 is carefully reviewed before submission to avoid a reoccurrence of the transcription errors noted in Draft Finding No. 2.

#### DPG RESPONSE

DPG disagrees that a portion of the issue identified in Finding #2 represents "a misunderstanding of the California-specific Lifeline service features in place during the time period covered by the audit." We understand that under California rules there was not a port freeze in place during the audit period and that subscribers could and did move between carriers within a 90 day period. However, all of the scenarios identified by the Beneficiary in its response represent situations where a subscriber might be reported under Block D of the Form 555 as de-enrolled prior to recertification attempt but are not scenarios where a subscriber would be reported under Block Q as de-enrolled for non-usage. The rules at 47 C.F.R. § 54.405(e)(3) are clear that non-usage is defined as failure to use service for 60 consecutive days and that a carrier must provide a 30 day notice period prior to terminating service. If a subscriber was terminated for non-usage in September and re-enrolled in the same month, given the 60 consecutive day definition of non-usage, it would not be possible for them to be de-enrolled again in October for non-usage. For this reason, DPG's position on this finding remains unchanged.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.409(c) (2014)	"In addition to meeting the qualifications provided in paragraph (a) or (b) of this section, in order to constitute a qualifying low-income consumer, a consumer must not already be receiving a Lifeline service, and there must not be anyone else in the subscriber's household subscribed to a Lifeline service."
#1	47 C.F.R. § 54.410(a) (2014)	"All eligible telecommunications carriers must implement policies and procedures for ensuring that their Lifeline subscribers are eligible to receive Lifeline services."
#2	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 § 54.410(f), to the Commission and the Administrator. Eligible telecommunications carriers designated as such by one or more states pursuant to § 54.201 must also provide, on an annual basis, the results of their re-certification efforts to state commissions for subscribers residing in those states where the state designated the eligible telecommunications carrier. Eligible telecommunications carriers must also provide their annual re-certification results for subscribers residing on Tribal lands to the relevant Tribal governments."
#2	47 C.F.R. § 54.405(e)(3) (2014)	" <i>De-enrollment for non-usage.</i> 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."

*Summary of Low Income Support Mechanism Beneficiary Audit Reports: June 1, 2018 – June 30, 2018*

<b>Entity Name, State</b>	<b>Number of Findings</b>	<b>Material Findings</b>	<b>Amount of Support</b>	<b>Monetary Effect</b>	<b>USAC Management Recovery Action</b>	<b>Entity Disagreement</b>
TerraCom, Inc. <b>(Attachment B)</b>	1	<ul style="list-style-type: none"> <li><b>Subscribers Outside of Service Area.</b> The Beneficiary did not have an adequate process in place to ensure it claimed support for eligible subscribers who resided within its designated service area.</li> </ul>	\$1,075,316	\$5,891	\$5,891	Y
<b>Total</b>	<b>1</b>		<b>\$1,075,316</b>	<b>\$5,891</b>	<b>\$5,891</b>	



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# TerraCom, Inc.

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Limited Scope Audit on Compliance with the Federal Universal Service Fund  
Lifeline Support Mechanism Rules  
USAC Audit No. LI2017BE037

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EXECUTIVE SUMMARY

June 22, 2018

Mr. Saul Ramirez, President  
TerraCom, Inc.  
933 E Britton Rd  
Oklahoma City, OK, 73114

Dear Mr. Ramirez:

DP George & Company, LLC (DPG) audited the compliance of TerraCom, Inc. (Beneficiary), study area code 439043 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.

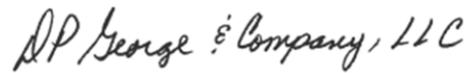
DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable 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 one detailed audit finding (Finding) 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,

A handwritten signature in cursive script that reads "DP George & Company, LLC".

DP George & Company, LLC  
Alexandria, Virginia

cc: Wayne Scott, Vice President, Internal Audit Division  
Radha Sekar, USAC Chief Executive Office  
Michelle Garber, USAC Vice President, Lifeline Division

## AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
<b>Finding #1: 47 C.F.R. § 54.201(b) – Subscribers Outside of Service Area.</b> The Beneficiary claimed subscribers on its Form 497 who reside outside the service area designated by the state commission.	\$5,891	\$5,891
<b>Total Net Monetary Effect</b>	<b>\$5,891</b>	<b>\$5,891</b>

## 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 February 2016 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	31,399	\$1,075,316

*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 Oklahoma.

### 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. Independent Economic Households**

DPG obtained and examined documentation for 39 subscribers to determine whether the subscribers satisfied the Independent Economic Household requirements.

**F. 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.

**G. 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. § 54.201(b) – Subscribers Outside of Service Area

#### CONDITION

DPG examined the Beneficiary's subscriber listing used to support the number of Lifeline subscribers claimed on the Form 497 to determine whether the Beneficiary provided services to subscribers who resided in the areas where it was designated as an ETC. The Oklahoma Corporation Commission, Public Utility Division (PUD) designated the service area based on the exchange boundaries for the following Incumbent Local Exchange Carriers (ILECs) listed in the Beneficiary's ETC Designation Order: AT&T Oklahoma and Windstream. DPG noted that the Beneficiary claimed 172 subscribers on the Form 497 who resided outside the Beneficiary's designated service area. DPG confirmed with the Oklahoma PUD that the addresses for these subscribers were outside the designated service area.

#### CAUSE

The Beneficiary did not have an adequate process in place to ensure it claimed support for eligible subscribers who resided within its designated service area.

The Beneficiary worked with the Oklahoma PUD to identify a listing of zip codes that were fully or partially covered by the ILEC study area boundaries of AT&T Oklahoma and Windstream. The Beneficiary used the listing when determining eligible subscribers within its service area. The Beneficiary was not aware that the Oklahoma PUD intended the listing to serve as a guide and when only part of a zip code was covered by the study area boundary, the Beneficiary needed to perform additional steps to verify the physical service address in relation to its service area.

#### EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	\$5,891	\$5,891

DPG calculated the monetary effect by multiplying the number of Lifeline subscribers affected (172) by the average support amount requested on the February 2016 Form 497 for Tribal Low-Income Subscribers (\$34.25) 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 recommends that the Beneficiary implement policies and procedures to ensure that it adheres to the Rules and only seeks universal support for eligible subscribers within its ETC designated service area in accordance with the Rules.

#### BENEFICIARY RESPONSE

While TerraCom agrees that the Oklahoma Corporation Commission determines what is reasonable with regard to any carrier's methodology for determining whether an applicant is within the ILEC boundaries or not, TerraCom disagrees with the Auditors' finding and strongly notes only the Commission and not its staff has the authority to make determinations of reasonableness.

To TerraCom's knowledge, the Oklahoma Corporation Commission has never adopted a rule as to how such determination must be performed therefore any reasonable methodology should be acceptable. In March 2012 when TerraCom was one of few if not the only competitive wireless ETC in Oklahoma, it worked with Staff and the Rural ILEC community to determine which zip codes were either fully within the areas of ATT and Windstream, fully out, and which were split. A list of Rural ILEC zip codes that TerraCom was not to serve was presented by Ms. Barbara Mallett the staff expert in TerraCom's ETC case. Since this agreement by the parties there have been no commission rules or orders adopted otherwise. While staff may have determined more advanced ways to make this determination and while it may have agreed with other carriers to use such methodology, TerraCom is not aware of any guidance or direction that has been published, nor have discussions occurred with TerraCom relative to this subject. As previously stated, any new rules must be adopted by the commission and to TerraCom's knowledge no such rules have been adopted.

Therefore, TerraCom's methodology is reasonable and within the rules. Subscribers who have in good faith chosen TerraCom should not be forced to lose their service nor should TerraCom be required to reimburse the fund for eligible lifeline households. TerraCom has continued to operate within the boundaries of the service areas agreed to at the time between it and members of staff and the ILECs involved. Following is the process that TerraCom went through at the time to ensure that it was operating within the appropriate boundaries. References to "communications" and "lists" are references to the exhibits supporting this response.

On February 1, 2012 Barbara Mallett (OCCC Staff and Expert witness in TerraCom's ETC approval) contacted Dale Schmick, COO of TerraCom and then head of regulatory with a concern expressed by Rural ILECs that TerraCom was marketing in Rural ILEC areas.

TerraCom had previously created a list of zip codes to determine if a subscriber was eligible. That list was based on overlaying zip code maps with state ILEC maps.

The February 1 communication was based on some Rural ILECs reporting that they could apply for service using TerraCom's website. The first list provided by Ms. Mallet were of the offices of various Rural ILECs and that list was vetted and if necessary corrected. In that list were two zip codes in the OKC metro area which is at least in part served by ATT. Ms. Mallett agreed we could serve those zip codes. See OK Service Area 1

Subsequent to that communication another list was received of Rural ILEC zip codes. In that string of communications Ms. Mallet and Mr. Schmick came upon zip codes that were being served by ATT and a Rural ILEC. Ms. Mallet in this communication speaks of a "work around". See OK Service Area 2

Subsequent to that communication Ms. Mallet contacted representatives for the Rural ILECs and proposed the "work around" where the "zip code is shared between TerraCom's territory and one of more RLEC's territories". See OK Service Area 3.

TerraCom received lists of all Rural ILEC service area zip codes. See various lists.

After researching all of the provided zip codes a meeting was held on March 7. See OK Service Area 4. At that meeting Mr. Schmick presented Ms. Mallett with the results of our research into the list of Rural ILEC zip codes provided. Contained in that list in the tab "discuss with staff" were zip codes served by ATT and a Rural ILEC. Ms. Mallett agreed that these zip codes were acceptable for TerraCom to offer service because they were all zip codes served by ATT or Windstream.

In September of 2012 Ms. Mallett confirms this in her request for the list as she cannot find it. See OK Service Area 5.

TerraCom feels that it has exercised good faith in the determination of its service areas by using the list of Rural ILEC zip codes provided to it and agreed upon. It feels that it is grossly unfair for staff to take advantage of now current technology to "second guess" its efforts. If the Commission wishes to issue new requirements now to override and replace previously agreed to processes and procedures, TerraCom is happy to comply. But until that happens, it feels that it has satisfied the requirements of the Commission with respect to ensuring that it operates with appropriate service boundaries.

#### DPG RESPONSE

The Lifeline rules at 47 C.F.R. § 54.201(b) assign responsibility for designating an ETC's service area to the applicable state commission. In this instance, the Oklahoma Corporation Commission designated the service territories of AT&T Oklahoma and Windstream as the area in which the Beneficiary was approved to provide service. The boundaries defining the service area represent geographic boundaries that do not align with postal service zip code boundaries. In order to determine compliance, DPG used the service territory boundaries defined for AT&T Oklahoma and Windstream. DPG confirmed with the Oklahoma PUD that the residential addresses for the subscribers identified in the finding fell outside of the service area designated by the Oklahoma Corporation Commission. The Oklahoma PUD acknowledged to DPG that a zip code listing had been established to provide guidance to the Beneficiary but indicated that the listing did not change the nature of whether the addresses in question were inside or outside of the Beneficiary's designated service area. The Oklahoma PUD maintained the position that it is the responsibility of the ETC to confirm or otherwise validate each physical location's address in relation to its designated service area. For these reasons, DPG's position on this finding remains unchanged.

## CRITERIA

Finding	Criteria	Description
#1	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.”
#1	47 C.F.R. § 54.201(b) (2015)	“A state commission shall upon its own motion or upon request designate a common carrier that meets the requirements of paragraph (d) of this section as an eligible telecommunications carrier for a service area designated by the state commission.”
#1	APPLICATION OF TERRACOM, INC. FOR ADDITIONAL DESIGNATION AS A WIRELESSS ELIGIBLE TELECOMMUNICATIONS CARRIER PURSUANT TO 47 U.S.C. §214(e), Cause No. PUD 201100015, Order No. 588340, at 6 (Oklahoma Corporation Commission, 2011) (ETC Designation Order)	“IT IS THEREFORE, THE ORDER OF THE CORPORATION COMMISSION of the State of Oklahoma that the Application filed herein by TerraCom, Inc. for designation as a wireless Eligible Telecommunications Carrier in the service territory of AT&T Oklahoma and Windstream, non-rural incumbent local exchange carriers, is approved, consistent with the findings herein.”