

Briefing book excludes all materials discussed in Executive Session.



High Cost and Low Income Committee Meeting

Audit Briefing Book

Monday, October 28, 2019

2:00 p.m. - 4:30 p.m. Eastern Time

Universal Service Administrative Company Offices

700 12th Street, NW, Suite 900

Washington, DC, 20005

Summary of High Cost Support Mechanism Beneficiary Audit Report Released: September 4, 2019

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
CenturyLink CenturyTel of Northern Michigan, Inc. Attachment A	3	<ul style="list-style-type: none"> • <u>Lack of Documentation Assets:</u> The Beneficiary did not provide any documentation for two assets. • <u>Inadequate Documentation: Assets and Expenses:</u> The Beneficiary did not provide adequate documentation to support select asset and expense transactions recorded in the General Ledger. 	\$255,351	\$5,860	\$5,860	Y
CenturyLink CenturyTel of Midwest Michigan, Inc. Attachment B	5	<ul style="list-style-type: none"> • <u>Improper Power and Common Cost Allocation.</u> The power and common cost reported was not allocated properly. • <u>Inadequate Documentation: Assets and Expenses.</u> The Beneficiary did not provide adequate documentation to support select asset and expense transactions recorded in the General Ledger. • <u>Lack Documentation: Assets.</u> The Beneficiary did not provide any documentation for six assets. 	\$2,865,615	\$34,039	\$34,039	Y

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Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Total	8		\$3,120,966	\$39,899	\$39,899	



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Universal Service
Administrative Co.

CenturyLink CenturyTel of Northern Michigan, Inc.

Performance Audit on Compliance with the Federal Universal Service
Fund High Cost Support Mechanism Rules
USAC Audit No. HC2014BE018

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EXECUTIVE SUMMARY

May 15, 2019

Donnie Aultman, Regulatory Supervisor
CenturyLink CenturyTel of Northern Michigan, Inc.
100 CenturyLink Drive
Monroe, LA 71203

Dear Mr. Aultman:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of CenturyLink CenturyTel of Northern Michigan, Inc. (Beneficiary), study area code 310705 disbursements for the year ended December 31, 2013, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, and 64, and 69, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our performance audit.

AAD 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 AAD 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. Except for the limitation on the scope of our audit as explained in the body of the audit report, the evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed three detailed audit findings (Findings), as 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 Federal Communications Commission (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.

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Sincerely,

A handwritten signature in black ink, appearing to read 'Teleshia Delmar', written over the printed name.

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc:Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Due to a limitation on the scope of our audit, AAD was unable to determine that the Beneficiary reported its assets and expenses in the proper amount and in the appropriate account¹ and therefore recommends recovery as detailed in the following chart:

Audit Results	Monetary Effect & Recommended Recovery ²
Finding #1: 47 C.F.R. § 54.320(b) (2011) – Lack of Documentation: Assets. The Beneficiary did not provide any documentation for two assets.	\$2,628
Finding #2: 47 C.F.R. § 54.320(b) (2011) – Inadequate Documentation: Assets and Expenses. The Beneficiary did not provide adequate documentation to support asset and expense cost reported.	\$2,055
Finding #3: 47 C.F.R. § 36.121(c)(1) (2004) – Improper Power and Common Cost Allocation. The power and common cost reported was allocated improperly.	\$1,177
Total	\$5,860

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 310705 for the High Cost Program support amount noted in the chart below. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	LSS	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	\$2,628	\$2,628	
Finding #2	\$2,055	\$2,055	
Finding #3	\$1,177	\$1,177	
Mechanism Total	\$5,860	\$5,860	

¹ See the Purpose, Scope, Background and Procedures section below, the Inadequate Documentation: Assets and Expenses Detailed Audit Finding (DAF), and Lack of Documentation: Assets DAF for additional details on the scope limitation identified that impacted AAD's determination of compliance related to certain Rules.

² 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.

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 High Cost Program support that was included in the scope of this audit:

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2011-2012	2013	\$3,519
Frozen High Cost Support (FHCS)	2013	2013	\$245,184
Local Switching Support (LSS)	2011	2013	\$6,648
Total			\$255,351

Due to a limitation on the scope of the audit, AAD was unable to determine that the Beneficiary was in compliance with certain Rules for the data reported on the LSS Form used for High Cost Program purposes.³

BACKGROUND

The Beneficiary is a price cap eligible telecommunications carrier (ETC) that operates in Michigan. The Beneficiary is an affiliate of CenturyLink.

PROCEDURES

AAD performed the following procedures:

A. General Procedures

AAD obtained and examined the relevant ETC designation order to determine whether the Beneficiary had been designated as an ETC in the study area prior to receiving High Cost Program support. AAD also obtained and examined the Beneficiary's state and/or self-certification letters to determine (1) the timeliness of the filings and (2) whether the filings included the required language that all federal High Cost Program 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.

B. High Cost Program Support Amount

AAD recalculated the support that the Beneficiary received for each High Cost component and determined that there were no more than nominal differences between the amounts received and those recorded in

³See the Inadequate Documentation: Assets and Expenses Detailed Audit Finding (DAF), and Lack of Documentation: Assets DAF for discussion of the scope limitation regarding the Beneficiary's compliance with the Rules surrounding the reporting of assets and expenses in the proper amount and in the appropriate account.

the High Cost system.⁴

C. High Cost Program Process

AAD obtained an understanding of the Beneficiary's processes related to the High Cost Program to determine whether the Beneficiary complied with the Rules. AAD also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings consistent with the dates established by the Rules (*i.e.*, month or year-end, as appropriate).

D. Subscriber Listing and Billing Records

AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer assisted auditing techniques to analyze the data files and determine whether:

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.
- The data files contained duplicate lines.
- The data files contained blank or invalid data.
- The data files contained non-revenue producing or non-working loops.

E. Fixed Assets

AAD attempted to obtain and examine the Beneficiary's continuing property records (CPRs) and related documentation to determine whether the Beneficiary reported accurate central office switching equipment balances as well as cable and wire facility equipment balances. AAD also attempted to examine documentation and conduct a physical inventory to determine whether the Beneficiary categorized fixed assets to the proper accounts. However, due to the Beneficiary's failure to comply with the requests of the audit and provide sufficient documentation supporting 16 assets, AAD was unable to determine whether the Beneficiary's assets were reported on the LSS Form in the proper amount, in the appropriate account, and categorized accurately.⁵

F. Operating Expenses

AAD obtained and examined tax reports, accrual schedules, and related documentation to determine whether the Beneficiary reported accurate tax expenses and deferred tax liabilities. AAD obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. AAD obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. AAD attempted to obtain and examine general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses. However, due to the Beneficiary's failure to comply with the requests of the audit and provide sufficient documentation supporting two expenses, AAD was unable to determine whether the Beneficiary's expenses were reported on the LSS Form in the proper amount and in the appropriate account.⁶

⁴ The 2011 base period amounts that were used to calculate the federal high-cost support (FHCS) disbursement for the audit period were not tested and were presumed to be accurate.

⁵ See *supra* note 4.

⁶ See *supra* note 4.

G. Revenues

AAD obtained and examined the general ledger, invoices, and other related documentation to determine whether the Beneficiary reported accurate common line and other revenue balances.

H. 47 C.F.R. § 54.313 Filing

AAD obtained and examined the Beneficiary's FCC 47 C.F.R. § 54.313 filing for accuracy by comparing select reported data against the Beneficiary's data files.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.320(b)⁷ (2011) – Lack of Documentation: Assets

CONDITION

AAD requested documentation (a sample of 27 assets) to determine whether, for High Cost Program purposes, the Beneficiary recorded its cost study balances to the proper General Ledger account. Based on the Beneficiary’s response, the Beneficiary generally tracked its assets and maintained documentation. However, the Beneficiary was unable to provide documentation for two assets that were recorded at a total value of \$109,643 in Account 2210 (COE-digital switching equipment).⁸ The Beneficiary informed AAD that the relevant documentation for two assets had been destroyed in a natural disaster and no other documentation could be provided.⁹

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its assets in the proper amount and to the proper General Ledger account. Because the Beneficiary did not provide documentation to substantiate these assets (i.e., scope limitation), AAD cannot conclude that the two assets were recorded in the proper amount and to the proper General Ledger account.

CAUSE

The Beneficiary did not have documentation or data retention procedures to ensure the proper retention of records to demonstrate assets were recorded in the proper amount and to the proper General Ledger account. The Beneficiary informed AAD that this issue occurred due to flooding from 23 inches of rain on March 8-12, 2016.¹⁰

EFFECT

AAD calculated the monetary effect for this Finding by deducting the recorded value of the two assets from the total amount reported by the Beneficiary for Account 2210 and associated accounts on its LSS Form. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
LSS	\$2,628

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amount identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the Rules. More information about documentation and reporting requirements

⁷ In November 2011, the FCC updated the High Cost record retention rule and moved the rule from 47 C.F.R. § 54.202(e) to 47 C.F.R. § 54.320(b).

⁸ See 47 C.F.R. § 32.2210.

⁹ Beneficiary responses to audit inquiries (received November 15, 2016).

¹⁰ Beneficiary responses to the exception summary (received September 11, 2018) (stating that 10 inches of rain fell on a single day, March 9, 2016).

may be found on USAC’s website at <http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx>.

BENEFICIARY RESPONSE

Flooding as a result 23 inches of rain from March 8-12, 2016. Of that amount, 10 inches fell on March 9. Numerous records were destroyed by the flooding. Although the amount is not material, seeking recovery due to the destruction caused by the flooding seems extreme.

AAD RESPONSE

The Beneficiary stated in its response that “seeking recovery due to the destruction caused by the flooding seems extreme”. In accordance with 47 C.F.R. § 54.320(b), the Beneficiary “shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules.” AAD does not have the authority to waive the Rules and, therefore, AAD’s position on this Finding remains unchanged.

Finding #2: 47 C.F.R. § 54.320(b)¹¹ (2011) – Inadequate Documentation: Assets and Expenses

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary recorded its cost study balances, including a sample of 25 assets and 20 expenses, to the proper General Ledger account for High Cost Program purposes. Although the Beneficiary tracked its assets and expenses and maintained documentation, AAD noted the following exceptions:

Exceptions Noted	Type	# of Exceptions	\$ Value of Exceptions	Account ¹²
Missing Invoices	Asset	12	\$68,654	2210
Missing Invoices and Allocation Methodology Could Not Be Substantiated for Accuracy or Reasonableness	Asset	2	\$13,791	2230
Allocation Methodology Could Not Be Substantiated for Accuracy or Reasonableness	Expense	1	\$880	6212
Allocation Methodology Could Not Be Substantiated for Accuracy or Reasonableness	Expense	1	\$128	6611
	Total	16	\$83,453	

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded assets and expenses in the proper amount and to the proper General Ledger account. Because the Beneficiary did not provide adequate documentation to substantiate its

¹¹ In November 2011, the FCC updated the High Cost record retention rule and moved the rule from 47 C.F.R. § 54.202(e) to 47 C.F.R. § 54.320(b).

¹² See 47 C.F.R. § 32.2210 (2002), see 47 C.F.R. § 32.2230 (2002), see 47 C.F.R. § 32.6212 (2002), see 47 C.F.R. § 32.6611 (2002).

assets and expenses (i.e., scope limitation), AAD cannot conclude that the 14 asset and 2 expense transactions were recorded in the proper amount and to the proper General Ledger account.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate assets and expenses were recorded in the proper amount and to the proper General Ledger account. The Beneficiary informed AAD that all invoices are approved according to company policy and procedure. However, the Beneficiary stated there did appear to be some challenges in the archiving and storing of some of the data in question. The Beneficiary also stated the amounts in question look to be extremely immaterial, therefore causing no adverse or material impacts to their balance sheet or fixed asset sub-ledger.¹³

EFFECT

AAD calculated the monetary effect for this Finding by deducting the unsupported portions of the 14 asset and 2 expense transactions from the total amount reported by the Beneficiary in its respective accounts on the LSS Form. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
LSS	\$2,055

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amount identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the Rules. More information about documentation and reporting requirements may be found on USAC's website at <http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx>.

BENEFICIARY RESPONSE

All invoices are approved according to company policy and procedure. However, there did appear to be some challenges in the archiving and storing of some of the data in question. The amounts in question look to be extremely immaterial, therefore causing no adverse or material impacts to our balance sheet or fixed asset sub-ledger.

Finding #3: 47 C.F.R. § 36.121(c)(1) (2004) – Improper Power and Common Cost Allocation

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary properly allocated the common central office equipment (equipment not assigned to a specific category, including power and common equipment) for High Cost Program purposes.¹⁴ AAD determined that:

¹³ Beneficiary responses to the exception summary (received September 11, 2018).

¹⁴ See 47 C.F.R. § 36.3 (b), see 47 C.F.R. § 36.121(c).

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- As of the year ending December 2011, for indirectly assigned and joint use costs relating to power and common equipment, the Beneficiary did not properly allocate costs among the central office equipment categories in accordance with 47 C.F.R. § 36.3(b), which requires assignment based on the frozen percentage relationships assigned to those categories;
- The Beneficiary properly allocated the power and common cost in July 2001 (based on the December 2000 levels when the percentage relationships were frozen), but failed to continuously update the assignment of the cost each subsequent year in accordance with the frozen percentage relationships;
- Thus, the Beneficiary did not properly allocate power and common equipment costs, which resulted in a \$96,513 overstatement in account 2210 (central office switching)¹⁵ and a \$56,149 understatement of account 2230 (central office transmission).

Because the Beneficiary did not allocate power and common costs among the central office equipment categories based on the frozen relationships of the categorized/sub-categorized costs to the associated Part 32 accounts as of the twelve month period ending December 31, 2000, AAD concludes that the power and common costs allocation was not properly assigned.

Consistent with 47 C.F.R. § 36.3(b), the Beneficiary must assign its cost to the separations categories according to the percentage relationships of the categorized costs that were frozen effective July 1, 2001 and continuously updated each year thereafter.¹⁶

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly allocate power and common costs and report accurate information for High Cost Program purposes. The Beneficiary states that it followed the *Separations Freeze Order*, as well as the FCC rules set forth in Part 54.301, and that both sets of guidance had to be taken into consideration in the preparation of the support algorithms; the Beneficiary believes that it correctly applied the FCC rules.¹⁷

EFFECT

AAD calculated the monetary effect for this Finding by deducting the recorded value of the overstatement for Account 2210 and the associated accounts (i.e., total central office equipment, category 3, accumulated depreciation and depreciation expense), and adding the recorded value of the understatement for Account 2230, from the total amount reported by the Beneficiary for these accounts on its LSS Form. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
LSS	\$1,177

¹⁵ See Local Switching Support Instructions for Support Calculation, OMB 3060-0814, p.5 (Sept. 2009) (FCC LSS Forms) (requiring that Account 2210 Category 3 Central Office Equipment (COE) is determined from a study of switching equipment investment; see also *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, FCC 01-162, para. 23 (rel. May 22, 2001) (stating, “in order to relieve all carriers of performing traffic or relative-use studies for separations purposes, all allocation factors used to assign Part 36 categories, subcategories, or further subdivisions to the state or interstate jurisdictions shall be frozen utilizing the factors calculated for the calendar year 2000”) (*Separations Freeze Order*).

¹⁶ See 47 C.F.R. § 36.3(b).

¹⁷ See Beneficiary responses to the exception summary (received September 11, 2018).

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amount identified in the Effect section above. The Beneficiary must implement an adequate system to properly report accurate information for High Cost Program purposes. More information about documentation and reporting requirements may be found on USAC's website at <http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx>.

BENEFICIARY RESPONSE

CenturyLink followed the directives contained within the Separations Freeze Order as well as the FCC rules set forth in Part 54.301. Both sets of guidance had to be taken into consideration and applied in the preparation of the support algorithms. In light of the information presented above, CenturyLink believes that it has correctly interpreted and applied the FCC rules. The following additional information was provided explaining the process:

In the "P&C Analysis" worksheet, it states "The carrier did not have a power and common spread worksheet". CenturyLink could not find where this was requested. However, the COE Allocation workpaper was subsequently provided to show the basis of the frozen allocation.

Additionally, in CenturyLink's response to Audit Inquiry #193, it explains why we did not continue the power and common reclasses beyond 2001. Adjustments to the general ledger balances as of 12/2001 were made to reflect the power and common reclasses needed to be in line with our frozen plant categorization. Prior to this point in time, the company did not have the ability to make these reclasses since we did not have our year 2000 frozen plant categorization prepared until the latter part of 2001. Once frozen plant categorization was approved, the power and common switching and transmission allocation ratios were applied to the December 2001 general ledger balances. Also included in the file is an excerpt from the Separations Freeze Order: The paragraph at the top of the second page clearly and concisely explains the intent of the FCC order.

The regulatory requirements referenced above are contained within the Part 36 rules which are impacted by the Separations Freeze Order. CenturyLink has not been able to find any documentation within the FCC rules requiring the application of frozen allocation ratios for power and common equipment to be applied to the Part 32 COE switching and transmission account balances on an annual basis. We requested that USAC provide the supporting documentation that the rules require this process under Part 32.

Audit staff provided additional rule references from Part 36 (47 C.F.R. § 36.121(c) and 47 C.F.R. § 36.3(b)). However, based on CenturyLink's interpretation of the rules, we still believe we have followed the guidelines and without further clarification from the USAC Audit staff other than the rule references, we do not believe this Finding is valid and no recovery should be made.

AAD RESPONSE

The Beneficiary states in its response that “CenturyLink could not find where [a power and common spread worksheet] was requested [by AAD].” However, the power and common analysis request was included in original list of requested documentation, line item no. 23, within the audit announcement package sent to the Beneficiary on November 7, 2014. The Beneficiary’s response to this requested item stated “Part 64 Cost Study not applicable”¹⁸ and no documentation was provided to substantiate this request.

The Beneficiary states in its response that it “followed the directives contained within the Separations Freeze Order as well as the FCC Rules set forth in Part 54.301[and that] [b]oth sets of guidance had to be taken into consideration and applied in the preparation of the support algorithms.” AAD concurs with the Beneficiary’s assertion that both the Separations Freeze Order and Part 54.301 had to be considered in the power and common analysis. However, AAD does not concur with the Beneficiary’s statement that “we have followed the guidelines and . . . we do not believe this finding is valid and no recovery should be made.” 47 C.F.R. § 54.301(a) states that “for purposes of this section, local switching costs shall be defined as Category 3 local switching costs under Part 36 of this section.” Therefore in order to comply with 47 C.F.R. § 54.301, the Beneficiary must also comply with the Part 36 Rules.

The Beneficiary also states in its response that it “did not continue the power and common reclasses beyond 2001” and further notes that it “has not been able to find any documentation within the FCC Rules requiring the application of frozen allocation ratios for power and common equipment to be applied to the Part 32 COE switching and transmission account balances on an annual basis.” AAD acknowledges that the Beneficiary properly allocated the power and common cost in July 2001 when the percentage relationships were frozen. However, the Beneficiary did not continuously update the assignment of the cost each subsequent year in accordance with the frozen percentage relationships. In response to the Beneficiary’s request for evidence that the power and common costs must be allocated thereafter, AAD provided the following rule during the audit process¹⁹:

*(b) Effective July 1, 2001, **through December 31, 2018 [emphasis added]**, local exchange carriers subject to price cap regulation, pursuant to §61.41, shall assign costs from the part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated part 32 accounts for the twelve month period ending December 31, 2000. If a part 32 account for separations purposes is categorized into more than one category, the percentage relationship among the categories shall be utilized as well. Local exchange carriers that invest in types of telecommunications plant during the period July 1, 2001, **through December 31, 2018 [emphasis added]**, for which it had no separations category investment for the twelve month period ending December 31, 2000, shall assign such investment to separations categories in accordance with the separations procedures in effect as of December 31, 2000. 47 C.F.R. § 36.3(b) (2018)*

¹⁸ Beneficiary responses to the initial list of requested documentation per the announcement package (received November 20, 2014).

¹⁹ AAD included this information within the exception summary received by the Beneficiary on September 18, 2018.

Although the Beneficiary asserted in its response that it has not been able to find any documentation within the FCC Rules requiring the application of frozen allocation ratios for power and common equipment to be applied to Part 32 COE on an annual basis, 47 C.F.R. § 36.3(b), there are multiple references to Part 32, as noted in the rule above. The last sentence of this citation specifically discusses the issue of equipment added after the initial separation freeze noting that this equipment shall be assigned to separations categories in accordance with the procedures in effect as of December 31, 2000. Thus, the Beneficiary did not properly allocate power and common equipment costs beyond 2001, the Beneficiary did not comply with the Rules and AAD's position on this Finding remains unchanged.

CRITERIA

Finding	Criteria	Description
#1 & #2	47 C.F.R. § 54.202(e) (2008)	All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. These records should include the following: data supporting line count filings; historical customer records; fixed asset property accounting records; general ledgers; invoice copies for the purchase and maintenance of equipment; maintenance contracts for the upgrade or equipment; and any other relevant documentation. This documentation must be maintained for at least five years from the receipt of funding.
#1 & #2	47 C.F.R. § 54.320(b) (2011)	All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.
#3	47 C.F.R. § 36.121(c)(1) (2004)	The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the categories in proportion to the cost of equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories.
#2	47 C.F.R. § 32.2210 (2002)	Central office—switching. This account shall be used by Class B companies to record the original cost of switching assets of the type and character required of Class A companies in Accounts 2211 through 2212.
#2	47 C.F.R. § 32.2230 (2002)	Central office—transmission. This account shall be used by Class B companies to record the original cost of radio systems and circuit equipment of the type and character required of Class A companies in Accounts 2231 and 2232
#2	47 C.F.R. § 32.6212 (2002)	Digital electronic switching expense. (a) This account shall include expenses associated with digital electronic switching. Digital electronic switching expenses shall be maintained in the following subaccounts: 6212.1 Circuit, 6212.2 Packet. (b) This subaccount 6212.1 Circuit shall include expenses associated with digital electronic switching equipment used to provide circuit switching. (c) This subaccount 6212.2 Packet shall include expenses associated with digital electronic switching equipment used to provide packet switching.
#2	47 C.F.R. § 32.6611 (2002)	Product management and sales. This account shall include: (a) Costs incurred in performing administrative activities related to marketing products and services. This includes competitive analysis, product and service identification and specification, test market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels. (b) Costs incurred in selling products and services. This includes determination

Finding	Criteria	Description
		of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records.
#3	47 C.F.R. § 36.121(c) (2004)	(c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering and other records.
#3	47 C.F.R. § 36.3(b) (2011)	(b) Effective July 1, 2001, through June 30, 2012, local exchange carriers subject to price cap regulation, pursuant to §61.41, shall assign costs from the part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated part 32 accounts for the twelve month period ending December 31, 2000. If a part 32 account for separations purposes is categorized into more than one category, the percentage relationship among the categories shall be utilized as well. Local exchange carriers that invest in types of telecommunications plant during the period July 1, 2001, through June 30, 2012, for which it had no separations category investment for the twelve month period ending December 31, 2000, shall assign such investment to separations categories in accordance with the separations procedures in effect as of December 31, 2000. Local exchange carriers not subject to price cap regulation, pursuant to §61.41 of this chapter, may elect to be subject to the provisions of §36.3(b). Such election must be made prior to July 1, 2001. Local exchange carriers electing to become subject to §36.3(b) shall not be eligible to withdraw from such regulation for the duration of the freeze. Local exchange carriers participating in Association tariffs, pursuant to §69.601 of this chapter et seq., shall notify the Association prior to July 1, 2001, of such intent to be subject to the provisions of §36.3(b). Local exchange carriers not participating in Association tariffs shall notify the Commission prior to July 1, 2001, of such intent to be subject to the provisions of §36.3(b).
#3	FCC LSS Forms - <i>Local Switching Support Instructions for Support Calculation.</i> (September 2009)	Account 2210 Cat. 3 - COE Category 3 (local switching) Determine from a study of switching equipment investment, the portion of Central Office Switching Equipment associated with COE Category 3, Local Switching.
#3	FCC 01-162 Jurisdictional Separations and Referral to the Federal-State Joint Board (¶123) (2001)	Similarly, we find that in order to relieve all carriers of performing traffic or relative-use studies for separations purposes, all allocation factors used to assign Part 36 categories, subcategories, or further subdivisions to the state or interstate jurisdictions shall be frozen utilizing the factors calculated for the calendar year 2000.



Briefing book excludes all materials discussed in Executive Session.

Universal Service
Administrative Co.

CenturyLink CenturyTel of Midwest Michigan, Inc.

Performance Audit on Compliance with the Federal Universal Service
Fund High Cost Support Mechanism Rules
USAC Audit No. HC2015BE001

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Universal Service
Administrative Co.

EXECUTIVE SUMMARY

May 15, 2019

Donnie Aultman, Regulatory Supervisor
CenturyLink CenturyTel of Midwest Michigan, Inc.
100 CenturyLink Drive
Monroe, LA 71203

Dear Mr. Aultman:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of CenturyLink CenturyTel of Midwest Michigan, Inc. (Beneficiary), study area code 310671, disbursements for the year ended December 31, 2013, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our performance audit.

AAD 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 AAD 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. Except for the limitation on the scope of our audit as explained in the body of the audit report, the evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

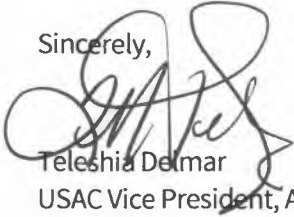
Based on the test work performed, our examination disclosed five detailed audit findings (Findings), as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during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

Briefing book excludes all materials discussed in Executive Session.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Teleshia Delmar', written over the printed name.

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Due to a limitation on the scope of our audit, AAD was unable to determine that the Beneficiary reported its assets and expenses in the proper amount and in the appropriate account¹ and therefore recommends recovery as detailed in the following chart:

Audit Results	Monetary Effect & Recommended Recovery ²
Finding #1: 47 C.F.R. § 36.121(c)(1) (2004) – Improper Power and Common Cost Allocation. The power and common cost reported was allocated improperly.	\$15,833
Finding #2: 47 C.F.R. § 54.320(b) (2011) – Inadequate Documentation: Assets and Expenses. The Beneficiary did not provide adequate documentation to support asset and expense cost reported.	\$10,199
Finding #3: 47 C.F.R. § 54.320(b) (2011) – Lack of Documentation: Assets. The Beneficiary did not provide any documentation for six assets.	\$5,066
Finding #4: 47 C.F.R. § 54.301(b) (2010) – Inaccurate Reporting: Assets. The continuing property records did not reconcile to amount reported on the Local Switching Support (LSS) Form.	\$1,768
Finding #5: 47 C.F.R. § 65.820(e)(5) (2002) – Inaccurate Cash Working Capital. The cash working capital reported was improperly calculated due to an inaccurate rate applied.	\$1,173
Total	\$34,039

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 310671 for the High Cost Program support amount noted in the chart below. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

¹ See the Purpose, Scope, Background and Procedures section below, the Inadequate Documentation: Assets and Expenses Detailed Audit Finding (DAF), and Lack of Documentation: Assets DAF for additional details on the scope limitation identified that impacted AAD’s determination of compliance related to certain Rules.

² 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.

	LSS	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	\$15,833	\$15,833	
Finding #2	\$10,199	\$10,199	
Finding #3	\$5,066	\$5,066	
Finding #4	\$1,768	\$1,768	
Finding #5	\$1,173	\$1,173	
Mechanism Total	\$34,039	\$34,039	

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 High Cost Program support that was included in the scope of this audit:

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Inter-carrier Compensation (ICC)	2011-2012	2013	\$85,131
Frozen High Cost Support (FHCS)	2013	2013	\$2,685,552
Local Switching Support (LSS)	2011	2013	\$94,932
Total			\$2,865,615

Due to a limitation on the scope of the audit, AAD was unable to determine that the Beneficiary was in compliance with certain Rules for the data reported on the LSS Form used for High Cost Program purposes.³

BACKGROUND

The Beneficiary is a price cap eligible telecommunications carrier (ETC) that operates in Michigan. The Beneficiary is an affiliate of CenturyLink.

PROCEDURES

AAD performed the following procedures:

A. General Procedures

AAD obtained and examined the relevant ETC designation order to determine whether the Beneficiary had been designated as an ETC in the study area prior to receiving High Cost Program support. AAD also

³See the Inadequate Documentation: Assets and Expenses Detailed Audit Finding (DAF), and Lack of Documentation: Assets DAF for discussion of the scope limitation regarding the Beneficiary's compliance with the Rules surrounding the reporting of assets and expenses in the proper amount and in the appropriate account.

obtained and examined the Beneficiary's state and/or self-certification letters to determine (1) the timeliness of the filings and (2) whether the filings included the required language that all federal High Cost Program 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.

B. High Cost Program Support Amount

AAD recalculated the support that the Beneficiary received for each High Cost component and determined that there were no more than nominal differences between the amounts received and those recorded in the High Cost system.⁴

C. High Cost Program Process

AAD obtained an understanding of the Beneficiary's processes related to the High Cost Program to determine whether the Beneficiary complied with the Rules. AAD also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings consistent with the dates established by the Rules (*i.e.*, month or year-end, as appropriate).

D. Subscriber Listing and Billing Records

AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer assisted auditing techniques to analyze the data files and determine whether:

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.
- The data files contained duplicate lines.
- The data files contained blank or invalid data.
- The data files contained non-revenue producing or non-working loops.

E. Fixed Assets

AAD attempted to obtain and examine the Beneficiary's continuing property records (CPRs) and related documentation to determine whether the Beneficiary reported accurate central office switching equipment balances as well as cable and wire facility equipment balances. AAD also attempted to examine documentation and conduct a physical inventory to determine whether the Beneficiary categorized fixed assets to the proper accounts. However, due to the Beneficiary's failure to comply with the requests of the audit and provide sufficient documentation supporting 21 assets, AAD was unable to determine whether the Beneficiary's assets were reported on the LSS Form in the proper amount, in the appropriate account, and categorized accurately.⁵

F. Operating Expenses

AAD obtained and examined tax reports, accrual schedules, and related documentation to determine whether the Beneficiary reported accurate tax expenses and deferred tax liabilities. AAD obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. AAD obtained and

⁴ The 2011 base period amounts that were used to calculate the federal high-cost support (FHCS) disbursement for the audit period were not tested and were presumed to be accurate.

⁵ See *supra* note 4.

examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. AAD attempted to obtain and examine general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses. However, due to the Beneficiary's failure to comply with the requests of the audit and provide sufficient documentation supporting eight expenses, AAD was unable to determine whether the Beneficiary's expenses were reported on the LSS Form in the proper amount and in the appropriate account.⁶

G. Revenues

AAD obtained and examined the general ledger, invoices, and other related documentation to determine whether the Beneficiary reported accurate common line and other revenue balances.

H. 47 C.F.R. § 54.313 Filing

AAD obtained and examined the Beneficiary's FCC 47 C.F.R. § 54.313 filing for accuracy by comparing select reported data against the Beneficiary's data files.

⁶ See *supra* note 4.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 36.121(c)(1) (2004) – Improper Power and Common Cost Allocation

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary properly allocated common central office equipment (equipment not assigned to a specific category, including power and common equipment) for High Cost Program purposes.⁷ AAD determined that:

- As of the year ending December 2011, for indirectly assigned and joint use costs relating to power and common equipment, the Beneficiary did not properly allocate costs among the central office equipment categories in accordance with 47 C.F.R. § 36.3(b), which requires assignment based on the frozen percentage relationships assigned to those categories;
- The Beneficiary properly allocated the power and common cost in July 2001 (based on the December 2000 levels when the percentage relationships were frozen), but failed to continuously update the assignment of the cost each subsequent year in accordance with the frozen percentage relationships;
- Thus, the Beneficiary did not properly allocate power and common equipment costs, which resulted in a \$954,566 overstatement in account 2210 (central office switching)⁸ and a \$847,353 understatement of account 2230 (central office transmission).

Because the Beneficiary did not allocate power and common costs among the central office equipment categories based on the frozen relationships of the categorized/sub-categorized costs to the associated Part 32 accounts as of the twelve month period ending December 31, 2000, AAD concludes that the power and common costs allocation was not properly assigned.

Consistent with 47 C.F.R. § 36.3(b), the Beneficiary must assign its cost to the separations categories according to the percentage relationships of the categorized costs that were frozen effective July 1, 2001 and continuously updated each year thereafter.⁹

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly allocate power and common costs and report accurate information for High Cost Program purposes.

⁷ See 47 C.F.R. § 36.3 (b), see 47 C.F.R. § 36.121(c).

⁸ See Local Switching Support Instructions for Support Calculation, OMB 3060-0814, p.5 (Sept. 2009) (FCC LSS Forms) (requiring that Account 2210 Category 3 Central Office Equipment (COE) is determined from a study of switching equipment investment; see also *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, FCC 01-162, para. 23 (rel. May 22, 2001) (stating, “in order to relieve all carriers of performing traffic or relative-use studies for separations purposes, all allocation factors used to assign Part 36 categories, subcategories, or further subdivisions to the state or interstate jurisdictions shall be frozen utilizing the factors calculated for the calendar year 2000”) (*Separations Freeze Order*).

⁹ See 47 C.F.R. § 36.3(b).

The Beneficiary states that it followed the *Separations Freeze Order*, as well as the FCC Rules set forth in Part 54.301, and that both sets of guidance had to be taken into consideration in the preparation of the support algorithms; the Beneficiary believes that it correctly applied the FCC Rules.¹⁰

EFFECT

AAD calculated the monetary effect for this Finding by deducting the recorded value of the overstatement for Account 2210 and the associated accounts (i.e., total central office equipment, category 3, accumulated depreciation and depreciation expense), and adding the recorded value of the understatement for Account 2230, from the total amount reported by the Beneficiary for these accounts on its LSS Form. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
LSS	\$15,833

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amount identified in the Effect section above. The Beneficiary must implement an adequate system to properly report accurate information for High Cost Program purposes. More information about documentation and reporting requirements may be found on USAC's website at <http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx>.

BENEFICIARY RESPONSE

CenturyLink followed the directives contained within the *Separations Freeze Order* as well as the FCC rules set forth in Part 54.301. Both sets of guidance had to be taken into consideration and applied in the preparation of the support algorithms. In light of the information presented above, CenturyLink believes that it has correctly interpreted and applied the FCC rules. The following additional information was provided explaining the process:

In the "P&C Analysis" worksheet, it states "The carrier did not have a power and common spread worksheet". CenturyLink could not find where this was requested. However, the COE Allocation workpaper was subsequently provided to show the basis of the frozen allocation.

Additionally, in CenturyLink's response to Audit Inquiry #193, it explains why we did not continue the power and common reclasses beyond 2001. Adjustments to the general ledger balances as of 12/2001 were made to reflect the power and common reclasses needed to be in line with our frozen plant categorization. Prior to this point in time, the company did not have the ability to make these reclasses since we did not have our year 2000 frozen plant categorization prepared until the latter part of 2001. Once frozen plant categorization was approved, the power and common switching and transmission allocation ratios were applied to the December 2001 general ledger balances. Also included in the file is an excerpt from the *Separations*

¹⁰ See Beneficiary responses to the exception summary (received September 26, 2018).

Freeze Order: The paragraph at the top of the second page clearly and concisely explains the intent of the FCC order.

The regulatory requirements referenced above are contained within the Part 36 rules which are impacted by the Separations Freeze Order. CenturyLink has not been able to find any documentation within the FCC rules requiring the application of frozen allocation ratios for power and common equipment to be applied to the Part 32 COE switching and transmission account balances on an annual basis. We requested that USAC provide the supporting documentation that the rules require this process under Part 32.

Audit staff provided additional rule references from Part 36 (47 C.F.R. § 36.121(c) and 47 C.F.R. § 36.3(b)). However, based on CenturyLink's interpretation of the rules, we still believe we have followed the guidelines and without further clarification from the USAC Audit staff other than the rule references, we do not believe this finding is valid and no recovery should be made.

AAD RESPONSE

The Beneficiary states in its response that "CenturyLink could not find where [a power and common spread worksheet] was requested [by AAD]." However, the power and common analysis request was included in the original list of requested documentation, line item no. 23, within the audit announcement package sent to the Beneficiary on November 7, 2014. The Beneficiary's response to the line item no. 23 request stated "Part 64 Cost Study not applicable"¹¹ and no documentation was provided to substantiate this request.

The Beneficiary states in its response that it "followed the directives contained within the Separations Freeze Order as well as the FCC Rules set forth in Part 54.301 [and that] [b]oth sets of guidance had to be taken into consideration and applied in the preparation of the support algorithms." AAD concurs with the Beneficiary's assertion that both the Separations Freeze Order and Part 54.301 had to be considered in the power and common analysis. However, AAD does not concur with the Beneficiary's statement that "we have followed the guidelines and... we do not believe this finding is valid and no recovery should be made." 47 C.F.R. § 54.301(a) states that "for purposes of this section, local switching costs shall be defined as Category 3 local switching costs under Part 36 of this section." Therefore in order to comply with 47 C.F.R. § 54.301, the Beneficiary must also comply with the Part 36 Rules.

The Beneficiary states in its response that it "did not continue the power and common reclasses beyond 2001" and further notes that it "has not been able to find any documentation within the FCC Rules requiring the application of frozen allocation ratios for power and common equipment to be applied to the Part 32 COE switching and transmission account balances on an annual basis." AAD acknowledges that the Beneficiary properly allocated the power and common cost in July 2001 when the percentage relationships were frozen. However, the Beneficiary did not continuously update the assignment of the cost each subsequent year in accordance with the frozen percentage relationships. In response to the Beneficiary's request for evidence

¹¹ Beneficiary responses to the initial list of requested documentation per the announcement package (received November 20, 2014).

that the power and common costs must be allocated thereafter, AAD provided the following FCC rule during the audit process¹²:

*(b) Effective July 1, 2001, **through December 31, 2018** [emphasis added], local exchange carriers subject to price cap regulation, pursuant to §61.41, shall assign costs from the part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated part 32 accounts for the twelve month period ending December 31, 2000. If a part 32 account for separations purposes is categorized into more than one category, the percentage relationship among the categories shall be utilized as well. Local exchange carriers that invest in types of telecommunications plant during the period July 1, 2001, **through December 31, 2018** [emphasis added], for which it had no separations category investment for the twelve month period ending December 31, 2000, shall assign such investment to separations categories in accordance with the separations procedures in effect as of December 31, 2000. 47 C.F.R. § 36.3(b) (2018)*

Although the Beneficiary asserted in its response that it has not been able to find any documentation within the FCC Rules requiring the application of frozen allocation ratios for power and common equipment to be applied to Part 32 COE on an annual basis, 47 C.F.R. § 36.3(b) has multiple references to Part 32, as noted in the rule above. The last sentence of this citation specifically addresses the issue of equipment added after the initial separation freeze by requiring this equipment to be assigned to separations categories in accordance with the separations procedures in effect as of December 31, 2000. Thus, since the Beneficiary did not properly allocate power and common equipment costs beyond 2001, the Beneficiary did not comply with the Rules and AAD’s position on this Finding remains unchanged.

Finding #2: 47 C.F.R. § 54.320(b)¹³ (2011) – Inadequate Documentation: Assets and Expenses

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary recorded its cost study balances, including a sample of 22 assets and 23 expenses, to the proper General Ledger account for High Cost Program purposes. Although the Beneficiary tracked its assets and expenses and maintained documentation, AAD identified the following exceptions:

Exceptions Noted	Type	# of Exceptions	\$ Value of Exceptions	Account ¹⁴
Missing Invoices and Allocation Methodology Could Not Be Substantiated for Accuracy or Reasonableness	Asset	5	\$38,896	2210

¹² AAD included this information within the exception summary received by the Beneficiary on September 18, 2018.

¹³ In November 2011, the FCC updated the High Cost record retention rule and moved the rule from 47 C.F.R. § 54.202(e) to 47 C.F.R. § 54.320(b).

¹⁴ See 47 C.F.R. § 32.2210 (2002), see 47 C.F.R. § 32.6212 (2002), see 47 C.F.R. § 32.6232 (2002), see 47 C.F.R. § 32.6613 (2002), see 47 C.F.R. § 32.6623 (2004);

Missing Invoices	Asset	10	\$173,746	2210
Missing Invoices and Allocation Methodology Could Not Be Substantiated for Accuracy or Reasonableness	Expense	1	\$6,827	6212
Missing Invoices and Allocation Methodology Could Not Be Substantiated for Accuracy or Reasonableness	Expense	1	\$4,555	6232
Missing Invoices	Expense	2	\$6,681	6212
Missing Invoices	Expense	2	\$13,435	6232
Missing Invoices	Expense	1	\$36	6613
Missing Invoices	Expense	1	\$4,576	6623
	Total	23	\$248,752	

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its assets and expenses in the proper amount and to the proper General Ledger account. Because the Beneficiary did not provide adequate documentation to substantiate its assets and expenses (i.e., scope limitation), AAD cannot conclude that the 15 asset and 8 expense transactions were recorded in the proper amount and to the proper General Ledger account.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate its assets and expenses were recorded in the proper amount and to the proper General Ledger account. The Beneficiary informed AAD that it “will not perform any additional research to determine the specific cause for this audit finding given the passage of time and the [sic] unlikelihood that any additional research would remedy the audit finding.”¹⁵

EFFECT

AAD calculated the monetary effect for this Finding by deducting the unsupported portions of the 15 assets and 8 expense transactions from the total amount reported by the Beneficiary in its respective accounts on the LSS Form. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
LSS	\$10,199

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amount identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the Rules. More information about documentation and reporting requirements may be found on USAC’s website at <http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx>.

¹⁵ Beneficiary responses to the exception summary (received September 26, 2018).

BENEFICIARY RESPONSE

Due to the length of time for the total audit and the length of time associated with the back and forth on this issue, the Company will not be able to provide a specific cause due to the response deadline and limited available resources to devote to researching the finding. We were given 5 days to respond to this issue.

The company will work to continue to keep adequate documentation. Also, the issue is not applicable in the future because the company no longer receives the support.

AAD RESPONSE

The Beneficiary stated in its response that “the Company will not be able to provide a specific cause due to the response deadline and limited available resources to devote to researching the findings [in which] [w]e were given 5 days to respond...” AAD does not concur with the Beneficiary’s assertion that it was only given five days to respond. AAD first informed the Beneficiary that inadequate documentation was provided for the assets and expenses in August 2015 and AAD made multiple subsequent requests for additional documentation. AAD provided the Beneficiary a final exception summary on September 17, 2018 identifying the list of exceptions and associated monetary effects. The Beneficiary responded to the exception summary on September 26, 2018. As noted in the Cause section of this Finding, the Beneficiary informed AAD that the Beneficiary will not perform additional research to determine the cause because the Beneficiary did not believe that additional research would remedy the Finding. On April 23, 2019, AAD sent the Beneficiary the written findings and requested the beneficiary provide responses within five business days since the findings had been previously communicated. The Beneficiary requested and AAD granted an extension of an additional five business days to respond. The Beneficiary then provided responses to the Findings 15 business days following receipt of the written Findings. Based on the information above, AAD believes a sufficient amount of time was available for the Beneficiary to identify the cause of the Finding.

The Beneficiary also stated in its response that “the issue is not applicable in the future because the company no longer receives the support.” Although the Beneficiary is no longer receiving Legacy High Cost Funds, the Beneficiary is still a recipient of High Cost Program funds and must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the Rules.

Finding #3: 47 C.F.R. § 54.320(b)¹⁶ (2011) – Lack of Documentation: Assets

CONDITION

AAD requested documentation (a sample of 22 assets) to determine whether, for High Cost Program purposes, the Beneficiary recorded its cost study balances to the proper General Ledger account. Based on the Beneficiary’s response, the Beneficiary generally tracked its assets and maintained documentation. However,

¹⁶ In November 2011, the FCC updated the High Cost record retention rule and moved the rule from 47 C.F.R. § 54.202(e) to 47 C.F.R. § 54.320(b).

the Beneficiary was unable to provide documentation for six assets that were recorded at a total value of \$173,781 in Account 2210 (COE-digital switching equipment).¹⁷ The Beneficiary informed AAD that the relevant documentation for the six assets had been destroyed in a natural disaster and no other documentation could be provided.¹⁸

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its assets in the proper amount and to the proper General Ledger account. Because the Beneficiary did not provide documentation to substantiate its assets (i.e., scope limitation), AAD cannot conclude that the six assets were recorded in the proper amount and to the proper General Ledger account.

CAUSE

The Beneficiary did not have documentation or data retention procedures to ensure the proper retention of records to demonstrate its assets were recorded in the proper amount and to the proper General Ledger account. The Beneficiary informed AAD that this issue occurred due to flooding from 23 inches of rain on March 8-12, 2016.¹⁹

EFFECT

AAD calculated the monetary effect for this Finding by deducting the recorded value of the six assets from the total amount reported by the Beneficiary for Account 2210 and the associated accounts on its LSS Form. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
LSS	\$5,066

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amount identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the Rules. More information about documentation and reporting requirements may be found on USAC's website at <http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx>.

BENEFICIARY RESPONSE

Flooding [occurred] as a result [of] 23 inches of rain from March 8-12, 2016. Of that amount, 10 inches fell on March 9. Numerous records were destroyed by the flooding. Although the amount is not material, seeking recovery due to the destruction caused by the flooding seems extreme.

AAD RESPONSE

The Beneficiary stated in its response that "seeking recovery due to the destruction caused by the flooding

¹⁷ See 47 C.F.R. § 32.2210.

¹⁸ Beneficiary responses to audit inquiries (received November 15, 2016).

¹⁹ Beneficiary responses to the exception summary (received September 26, 2018) (stating that 10 inches of rain fell on a single day, March 9, 2016).

seems extreme.” In accordance with 47 C.F.R. § 54.320(b), the Beneficiary “shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules.” AAD does not have the authority to waive the Rules and, therefore, AAD’s position on this Finding remains unchanged.

Finding #4: 47 C.F.R. § 54.301(b) (2010) – Inaccurate Reporting: Assets

CONDITION

AAD examined the Beneficiary’s continuing property records (CPRs) to determine whether the Beneficiary properly reported its assets for High Cost Program purposes. The Beneficiary’s CPRs did not reconcile to what the Beneficiary reported on the LSS Form. The Beneficiary’s LSS form was overstated by \$325,721 as compared to the Beneficiary’s CPR.

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its assets in the proper amount and to the proper General Ledger account.²⁰ Because the Beneficiary did not provide adequate documentation to substantiate its assets, AAD concludes that the assets were not recorded in the proper amount.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate it reported the proper amount of assets. The Beneficiary informed AAD that the CPRs will not balance to the General Ledger because some of its investment projects are budgeted based on historical data, forecasted growth and other requirements, and other projects are based on dollars without units of investment. The Beneficiary also believes that the difference between the two financial records is a timing difference.²¹

EFFECT

AAD calculated the monetary effect for this Finding by deducting the recorded value of the overstatement from the total amount reported by the Beneficiary in its respective accounts on the LSS Form. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
LSS	\$1,768

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amount identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the Rules. More information about documentation and reporting requirements

²⁰ See 47 C.F.R. § 36.121, see 47 C.F.R. § 36.151.

²¹ Beneficiary responses to audit inquiries (received April 9, 2015 and August 4, 2015). In addition, the Beneficiary’s responses to the exception summary, received September 26, 2018, informed AAD that the Beneficiary will not perform any additional research to determine the specific cause for this Finding given the passage of time and the [sic] unlikelihood that any additional research would remedy the Finding.

may be found on USAC's website at <http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx>.

BENEFICIARY RESPONSE

Due to the length of time for the total audit and the length of time associated with the back and forth on this issue, the Company will not be able to provide a specific cause due to the response deadline and limited available resources to devote to researching the finding. We were given 5 days to respond to this issue.

The company will work to continue to keep adequate documentation. Also, the issue is not applicable in the future because the company no longer receives the support.

AAD RESPONSE

The Beneficiary stated in its response that “the Company will not be able to provide a specific cause due to the response deadline and limited available resources to devote to researching the findings [in which] [w]e were given 5 days to response...” AAD does not concur with the Beneficiary's assertion that it was only given five days to respond. AAD first informed the Beneficiary that discrepancies were noted between the General Ledger and the continuing property records on March 17, 2015 through inquiries made via the audit inquiries record²². The Beneficiary provided responses on April 9th and August 4th of 2015, informing AAD that 1) the CPRs will not balance to the General Ledger because some of its investment projects are budgeted based on historical data, forecasted growth and other requirements, and other projects are based on dollars without units of investment, and 2) the Beneficiary believed that the difference between the two financial records is a timing difference. The Beneficiary was sent a final exception summary on September 17, 2018 identifying the final listing of exceptions and monetary effects. The Beneficiary provided responses on September 26, 2018 to the exception summary indicating that Beneficiary will not perform additional research to determine the cause because they did not believe that additional research would remedy the Finding²³. On April 23, 2019, AAD sent the Beneficiary the final written Findings and requested the Beneficiary provide responses within five days to respond to the findings that had previously been communicated. The Beneficiary requested and AAD granted an extension of an additional five business days to respond. The Beneficiary then provided responses to the Findings 15 business days following receipt of the written Findings. Based on the information above, AAD believes a sufficient amount of time was available for the Beneficiary to identify the cause of the Finding.

The Beneficiary also stated in its response that “the issue is not applicable in the future because the company no longer receives the support.” Although the Beneficiary is no longer receiving Legacy High Cost Funds, the Beneficiary is still a recipient of High Cost Program funds and must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the Rules.

²² See Email from Emily Powell, Sr. Auditor, USAC to Donnie Aultman, Regulatory Supervisor, CenturyLink CenturyTel of Midwest Michigan, Inc. (March 17, 2015) (notifying the Beneficiary that inquiries related to discrepancies between the General Ledger and continuing property records were added to the audit inquiries record).

²³ Beneficiary responses to the exception summary (received September 26, 2018).

Finding #5: 47 C.F.R. § 65.820(e)(5) (2002) – Inaccurate Cash Working Capital Allowance

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary properly calculated its cash working capital (CWC)²⁴ allowance for High Cost Program purposes. The Beneficiary did not properly perform its CWC calculation:

- The Beneficiary did not compute the cash working capital allowance of the rate base in accordance with the Rules, which provide that CWC is computed by multiplying the interstate cash operating expenses (i.e., operating expenses minus depreciation and amortization) plus interest by the standard rate of 0.041096.²⁵
- The Beneficiary initially informed AAD that it had used the standard rate allowed per the FCC’s Rules,²⁶ however, the Beneficiary improperly included contributions as part of other operating income and expenses.
- The Beneficiary’s inaccurate calculation resulted in an understatement of the cash working capital allowance in the amount \$465,046.

Thus, AAD concludes that its CWC allowance was not properly calculated and recorded in the proper amount.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly calculate its CWC allowance and report accurate information for High Cost Program purposes. Subsequently, the Beneficiary informed AAD that the underlying CWC factor was based on the ratio of interstate CWC expenses to total company CWC expenses,²⁷ thus, understating the allocation ratio.

EFFECT

AAD calculated the monetary effect for this Finding by deducting the recorded value of the understatement from the total amount reported by the Beneficiary for cash working capital on the LSS Form. The results are summarized as the following:

Support Type	Monetary Effect & Recommended Recovery
LSS	\$1,173

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amount identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure that it maintains an adequate system to

²⁴ Cash working capital is the average amount of investor-supplied capital needed to provide funds for a carrier’s day-to-day interstate operations. See 47 C.F.R. § 65.820(d).

²⁵ See 47 C.F.R. § 65.820(d), see 47 C.F.R. § 65.800, see Amendment of Part 65 of the Commission Rules to Prescribe Components of the Rate Base and net income of Dominant Carriers, Order on Reconsideration, 4 FCC Rcd 1697 ¶14, (1989) (Reconsideration Order).

²⁶ See Beneficiary responses to the audit inquiries (received July 27, 2017 and August 9, 2017).

²⁷ The Beneficiary’s responses to the exception summary, received September 26, 2018, informed AAD that the factor used was based on an allocated ratio.

Briefing book excludes all materials discussed in Executive Session.

collect, report, and monitor data to demonstrate compliance with the Rules. More information about documentation and reporting requirements may be found on USAC's website at <http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx>.

BENEFICIARY RESPONSE

CenturyLink accepts the finding. The underlying CWC factor was based on the ratio of interstate CWC expenses to total company CWC expenses thereby understating the allocation ratio.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 36.121(c)(1) (2004)	The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the categories in proportion to the cost of equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories.
#1	47 C.F.R. § 36.121(c) (2004)	(c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering and other records.
#1	47 C.F.R. § 36.3(b) (2011)	(b) Effective July 1, 2001, through June 30, 2012, local exchange carriers subject to price cap regulation, pursuant to §61.41, shall assign costs from the part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated part 32 accounts for the twelve month period ending December 31, 2000. If a part 32 account for separations purposes is categorized into more than one category, the percentage relationship among the categories shall be utilized as well. Local exchange carriers that invest in types of telecommunications plant during the period July 1, 2001, through June 30, 2012, for which it had no separations category investment for the twelve month period ending December 31, 2000, shall assign such investment to separations categories in accordance with the separations procedures in effect as of December 31, 2000. Local exchange carriers not subject to price cap regulation, pursuant to §61.41 of this chapter, may elect to be subject to the provisions of §36.3(b). Such election must be made prior to July 1, 2001. Local exchange carriers electing to become subject to §36.3(b) shall not be eligible to withdraw from such regulation for the duration of the freeze. Local exchange carriers participating in Association tariffs, pursuant to §69.601 of this chapter et seq., shall notify the Association prior to July 1, 2001, of such intent to be subject to the provisions of §36.3(b). Local exchange carriers not participating in Association tariffs shall notify the Commission prior to July 1, 2001, of such intent to be subject to the provisions of §36.3(b).
#1	FCC LSS Forms - <i>Local Switching Support Instructions for Support Calculation.</i> (September 2009)	Account 2210 Cat. 3 - COE Category 3 (local switching) Determine from a study of switching equipment investment, the portion of Central Office Switching Equipment associated with COE Category 3, Local Switching.
#1	FCC 01-162 Jurisdictional Separations and Referral to the	Similarly, we find that in order to relieve all carriers of performing traffic or relative-use studies for separations purposes, all allocation factors used to assign Part 36 categories, subcategories, or further

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Finding	Criteria	Description
	Federal-State Joint Board (¶23) (2001)	subdivisions to the state or interstate jurisdictions shall be frozen utilizing the factors calculated for the calendar year 2000.
#2 & #3	47 C.F.R. § 54.320(b) (2011)	All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.
#2 & #3	47 C.F.R. § 54.202(e) (2008)	All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. These records should include the following: data supporting line count filings; historical customer records; fixed asset property accounting records; general ledgers; invoice copies for the purchase and maintenance of equipment; maintenance contracts for the upgrade or equipment; and any other relevant documentation. This documentation must be maintained for at least five years from the receipt of funding.
#2 & #3	47 C.F.R. § 32.2210 (2002)	Central office—switching. This account shall be used by Class B companies to record the original cost of switching assets of the type and character required of Class A companies in Accounts 2211 through 2212.
#2	47 C.F.R. § 32.6212 (2002)	Digital electronic switching expense. (a) This account shall include expenses associated with digital electronic switching. Digital electronic switching expenses shall be maintained in the following subaccounts: 6212.1 Circuit, 6212.2 Packet. (b) This subaccount 6212.1 Circuit shall include expenses associated with digital electronic switching equipment used to provide circuit switching. (c) This subaccount 6212.2 Packet shall include expenses associated with digital electronic switching equipment used to provide packet switching.
#2	47 C.F.R. § 32.6232 (2002)	Circuit equipment expense. (a) This account shall include expenses associated with circuit equipment. Circuit equipment expenses shall be maintained in the following subaccounts: 6232.1 Electronic, 6232.2 Optical. (b) This subaccount 6232.1 Electronic shall include expenses associated with electronic circuit equipment. (c) This subaccount 6232.2 Optical shall include expenses associated with optical circuit equipment.
#2	47 C.F.R. § 32.6613 (2002)	Product advertising. This account shall include costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services. This excludes nonproduct-related advertising, such as corporate image, stock and bond issue and employment advertisements, which shall be included in the appropriate functional accounts.
#2	47 C.F.R. § 32.6623 (2004)	Customer services. (a) This account shall include costs incurred in establishing and servicing customer accounts. This includes: (1) Initiating customer service orders and records; (2) Maintaining and billing customer accounts; (3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with

Finding	Criteria	Description
		customers regarding adjustments of bills; (4) Collecting and reporting pay station receipts; and (5) Instructing customers in the use of products and services. (b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by part 43 of this Commission's rules and regulations.
#4	47 C.F.R. § 54.301(b) (2010)	Submission of data to the Administrator. Each incumbent local exchange carrier that has been designated an eligible telecommunications carrier and that serves a study area with 50,000 or fewer access lines shall, for each study area, provide the Administrator with the projected total unseparated dollar amount assigned to each account listed below for the calendar year following each filing. This information must be provided to the Administrator no later than October 1 of each year. The Administrator shall use this information to calculate the projected annual unseparated local switching revenue requirement pursuant to paragraph (d) of this section.
#1, 4	47 C.F.R. § 36.121 (2004)	<p>(a) The costs of central office equipment are carried in the following accounts:</p> <ul style="list-style-type: none"> Central Office Switching. Account 2210. Non-digital Switching. Account 2211. Digital Electronic Switching. Account 2212. Operator Systems. Account 2220. Central Office—Transmission. Account 2230. Radio Systems. Account 2231. Circuit Equipment. Account 2232. <p>(b) Records of the cost of central office equipment are usually maintained for each study area separately by accounts. However, each account frequently includes equipment having more than one use. Also, equipment in one account frequently is associated closely with equipment in the same building in another account. Therefore, the separations procedures for central office equipment have been designed to deal with categories of plant rather than with equipment in an account.</p> <p>(c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering and other records.</p> <p>(1) The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the categories in proportion to the cost of</p>

Finding	Criteria	Description
		<p>equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories.</p> <ul style="list-style-type: none"> <li data-bbox="672 302 1398 495">(i) The cost of power equipment used by one category is assigned directly to that category, e.g., 130 volt power supply provided for circuit equipment. The cost of emergency power equipment protecting only power equipment used by one category is also assigned directly to that category. <li data-bbox="672 506 1398 663">(ii) Where appropriate, a weighting factor is applied to the cost of circuit equipment in distributing the power plant costs not directly assigned, in order to reflect the generally greater power use per dollar of cost of this equipment. <p data-bbox="626 701 1398 793">(d) The second step is the apportionment of the cost of the equipment in each category among the operations through the application of appropriate use factors or by direct assignment.</p>
#4	47 C.F.R. § 36.151 (2011)	<p data-bbox="626 806 1386 968">(a) Cable and Wire Facilities, Account 2410, includes the following types of communications plant in service: Poles and antenna supporting structures, aerial cable, underground cable, buried cable, submarine cable, deep sea cable, intrabuilding network cable, aerial wire and conduit systems.</p> <p data-bbox="626 1005 1386 1098">(b) For separations purposes, it is necessary to analyze the cable and wire facilities classified in subordinate records in order to determine their assignment to the categories listed in the following paragraphs.</p> <p data-bbox="626 1136 1406 1465">(c) 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.</p> <p data-bbox="626 1503 1398 1602">(d) The second step is the apportionment of the cost of the facilities in each category among the operations through the application of appropriate factors or by direct assignment.</p>
#5	47 C.F.R. § 65.820(e)(5) (2002)	<p data-bbox="626 1614 1360 1738">Compute the cash working capital allowance by multiplying the interstate cash operating expenses (i.e., operating expenses minus depreciation and amortization) plus interest by the percentage computed in paragraph (e)(4) of this section.</p>
#5	47 C.F.R. § 65.820(d) (2002)	<p data-bbox="626 1751 1406 1902">Cash working capital. The average amount of investor-supplied capital needed to provide funds for a carrier's day-to-day interstate operations. Class A carriers may calculate a cash working capital allowance either by performing a lead-lag study of interstate revenue and expense items or by using the formula set forth in paragraph (e) of</p>

Finding	Criteria	Description
		<p>this section. Class B carriers, in lieu of performing a lead-lag study or using the formula in paragraph (e) of this section, may calculate the cash working capital allowance using a standard allowance which will be established annually by the Chief, Wireline Competition Bureau. When either the lead-lag study or formula method is used to calculate cash working capital, the amount calculated under the study or formula may be increased by minimum bank balances and working cash advances to determine the cash working capital allowance. Once a carrier has selected a method of determining its cash working capital allowance, it shall not change to an optional method from one year to the next without Commission approval.</p>
#5	47 C.F.R. § 65.800 (2002)	<p>The rate base shall consist of the interstate portion of the accounts listed in §65.820 that has been invested in plant used and useful in the efficient provision of interstate telecommunications services regulated by this Commission, minus any deducted items computed in accordance with §65.830.</p>
#5	<p>Amendment of Part 65 of the Commission Rules to Prescribe Components of the Rate Base and net income of Dominant Carriers, Order on Reconsideration, 4 FCC Rcd 1697 ¶14, (1989) (Reconsideration Order)</p>	<p>Several parties have also suggested that we develop a more simplified approach that would reflect the actual results of larger carriers. Such an approach has merit, and we have developed a method under which a Class B carrier's CWC could be determined using an industry "standard time period" of lead or lag (Standard Allowance Method). This standard lead or lag would be applied to an individual Class B carrier's cash operating expense to determine its CWC. Our review of the data available at this Commission which relate carrier CWC and operating expenses indicates that a 15 day lag period is an appropriate standard for the present. Thus, a Class B carrier will be permitted to include in the rate base a standard cash working capital allowance equal to 15 days of its cash operating expenses. If, however, a Class B carrier believes that the Standard Allowance Method result is insufficient, it may elect to follow the Simplified Formula Method or perform a full lead-lag study. We believe the standard allowance should be reviewed and revised periodically, as necessary, and, in order to do so in the most efficient manner, we delegate this task to the Chief of the Common Carrier Bureau. This review will take place when the carriers file their annual financial reports with this Commission. We expect the Chief of the Common Carrier Bureau to issue a letter to all subject carriers in the event there is to be a change in the number of days used for the Standard Allowance Method.</p>

Summary of Low Income Support Mechanism Beneficiary Audit Reports Released: July 3, 2019

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Entity Disagreement
North American Local, LLC (WI) Attachment A	6	<ul style="list-style-type: none"> • <u>Subscribers Outside of Service Area</u> - The Beneficiary claimed support for subscribers who resided outside the state-designated service area. • <u>Improper Certification Documentation Disclosures</u> - The Beneficiary's subscriber certification and recertification documentation omitted required disclosures. • <u>Form 497 and NLAD Variance</u> - The number of subscribers claimed on the FCC Form 497 exceeded the number of subscribers the Beneficiary identified as active in the National Lifeline Accountability Database (NLAD) for the same period. 	\$76,155	\$191,837	\$187,042	Y

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Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Entity Disagreement
CenturyLink-Embarq Florida, Inc. (FL) Attachment B	3	<ul style="list-style-type: none"> • <u>Form 497 and NLAD Variance</u> - The number of subscribers claimed on the FCC Form 497 exceeded the number of subscribers the Beneficiary identified as active in NLAD for the same period. • <u>Inadequate Documentation: Subscriber Eligibility</u> - The Beneficiary's subscribers did not meet eligibility requirement to receive Lifeline support. 	\$117,605	\$17,585	\$16,540	Y
Total	9		\$193,760	\$209,422	\$203,582	

* The Monetary Effect amount represents the actual dollar effect of the finding(s) without taking into account any overlapping exceptions between findings. Thus, the total Monetary Effect may exceed the Amount of Support that was disbursed to the Beneficiary.

North American Local, LLC

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2017LR008

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Universal Service
Administrative Co.

EXECUTIVE SUMMARY

March 1, 2019

Mr. Jorge Bellas
North American Local, LLC
13430 Gulf Beach Highway, #79
Pensacola, FL 32507

Dear Mr. Bellas:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of North American Local, LLC's (Beneficiary), study area code 339051 disbursements for the month ended February 28, 2017, using the 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. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD 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 AAD 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 AAD's findings and conclusions based on the audit objectives.

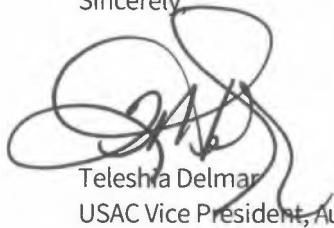
Based on the test work performed, our examination disclosed six detailed audit findings (Findings) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit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

Briefing book excludes all materials discussed in Executive Session.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Delmar', with a large, stylized flourish extending from the end of the signature.

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Michelle Garber, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Exceptions¹ (B)	Recommended Recovery (A) - (B)
Finding #1: 47 C.F.R. § 54.201(b) - Subscribers Outside of Service Area The Beneficiary claimed support for subscribers who resided outside the state-designated service area.	\$169,910	\$0	\$169,910
Finding #2: 47 C.F.R. § 54.410(d) - Improper Certification Documentation Disclosures The Beneficiary's subscriber certification and recertification documentation omitted required disclosures.	\$12,878	\$3,185	\$9,693
Finding #3: 47 C.F.R. § 54.404(b) - Form 497 and NLAD Variance The number of subscribers claimed on the FCC Form 497 exceeded the number of subscribers the Beneficiary identified as active in the National Lifeline Accountability Database (NLAD) for the same period.	\$6,275	\$0	\$6,275
Finding #4: 47 C.F.R. § 54.409(c) - Duplicative Support The Beneficiary claimed support for the same subscriber more than once during the audit period.	\$582	\$0	\$582
Finding #5: 47 C.F.R. § 54.410(d) - Subscriber Eligibility The Beneficiary's subscribers did not meet eligibility requirement to receive Lifeline support.	\$2,192	\$1,610	\$582
Finding #6: 47 C.F.R. § 54.409(a)(2) & (b) - Improper Qualification Criteria The Beneficiary failed to include all required eligibility programs.	\$0	\$0	\$0
Total Net Monetary Effect	191,837	\$4,795	\$187,042

¹ If the Beneficiary files an appeal and is successful, USAC will discontinue recovery efforts for the finding(s) that were resolved by the appeal decision. If there is overlapping recovery (*i.e.*, recovery that is included in two or more findings), the overlapping recovery will be recovered based on the finding(s) that were not resolved by the appeal decision.

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 2017 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	13	\$120
Tribal Lifeline	2,220	\$76,035
Total	2,233	\$76,155

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 Wisconsin.

PROCEDURES

AAD performed the following procedures:

A. General Procedures

AAD obtained and examined the ETC designation order to determine whether the Beneficiary was designated as an ETC in the study area prior to receiving Lifeline Program support.

B. Form 497

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

C. Certification and Recertification Process

AAD 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. AAD also obtained and examined certification and/or recertification documentation for 58 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

D. Subscriber Listing

AAD 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.

E. Lifeline Subscriber Discounts

AAD obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 58 subscribers.

F. Form 555

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

G. Non-Usage Process

AAD obtained an understanding of the Beneficiary's non-usage process relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. AAD 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

AAD obtained and examined the Beneficiary's subscriber listing that was used to support the number of Lifeline subscribers claimed for reimbursement 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 Public Service Commission of Wisconsin (PSC) designated the Beneficiary as an ETC throughout the non-rural wire centers (including non-rural tribal areas) of Wisconsin.² The PSC also provided AAD with a list of the rural and non-rural wire centers in the state.³ AAD used the information provided by the PSC to identify the Beneficiary's designated service areas. The Beneficiary claimed 615 subscribers on the Form 497 who resided outside of the Beneficiary's designated service area. Therefore, AAD cannot conclude that these subscribers were eligible to receive Lifeline Program support. The Beneficiary must not claim subscribers for reimbursement on the Form 497 in areas where it is not designated as an ETC.

CAUSE

The Beneficiary did not have an adequate process in place to ensure that it only claimed support for eligible subscribers who resided within its designated service area. The Beneficiary believed that its original ETC order designated it to serve tribal areas in the state, including rural areas.⁴

EFFECT

The monetary effect for this finding represents the total amount of Lifeline support provided to the Beneficiary for the 615 subscribers outside of its ETC, based on the subscribers' Lifeline start dates identified in the Beneficiary's documentation to the audit period.

Support Type	Monetary Effect	Recommended Recovery
Lifeline	\$749	\$749
Tribal Lifeline	\$169,161	\$169,161
Total	\$169,910	\$169,910

RECOMMENDATION

AAD recommends USAC management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement policies, procedures and controls to ensure that it claims Lifeline Program support only for eligible subscribers who reside within the Beneficiary's designated service area.

BENEFICIARY RESPONSE

NAL disputes this audit Finding and opposes the recommendation of AAD. NAL is an authorized ETC for the purposes of receiving federal and state Universal Services Fund

² See ETC Designation Order at 1.

³ PSC of Wisconsin responses to audit inquiries, received Nov. 6, 2017.

⁴ Beneficiary responses to audit inquiries, received Nov. 30, 2018.

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(USF) monies in the non-rural areas of Wisconsin “including the tribal areas of the state” - as we had explicitly requested in our ETC Application. In the NAL WI ETC Order, the Wisconsin Public Service Commission (“PSC”) concluded that the public interest would be served by designating NAL “as an ETC in the areas for which North American requests such designation.” NAL’s request specifically included the language: “the tribal areas of the state.” We did not request designation in the “non-rural’ tribal areas of the state” as erroneously stated by AAD. We requested “the” tribal areas of the state.

Under the federal rules, a public interest analysis is not required for designations limited to non-rural telephone company areas. The WI PSC, however, did perform a public interest analysis due to our Application’s coverage area request and concluded that NAL’s designation was in the public interest for the service areas it requested, including those areas served by a rural telephone company (“The Commission finds that it is in the public interest to designate North American as an ETC in the areas for which North American requests such designation.” *NAL WI ETC Order* at p. 6). Consistent with the *NAL WI ETC Order*, NAL receives state and federal Lifeline support for its Tribal Lifeline subscribers in Wisconsin.

In the *NAL WI ETC Order*, the WI PSC did not append a list of rural and non-rural wire centers that would comprise NAL’s ETC service area nor did the PSC request a list of wire centers from NAL at any time in its review of the Application, but instead referred to the ETC service area requested by NAL in its ETC Application. NAL’s ETC Application did not list wire centers, but identified its ETC service area as “including the tribal areas of the state for purposes of receiving federal universal service support.” (Please see NAL ETC Application at p. 1.) AAD states in the Condition section of its Finding that the WI PSC designated NAL as “an ETC throughout the non-rural wire centers (including non-rural tribal areas) of Wisconsin,” but that language is not in the *NAL WI ETC Order* nor is it in NAL’s Application which the Order references. AAD unilaterally inserted the words “non-rural” in front of the words “tribal areas” apparently as a means of supporting its own preferred interpretation of NAL’s designated coverage area. AAD further states that it obtained a list of rural and non-rural wire centers in Wisconsin from the WI PSC and used this information to create a list of the wire centers within NAL’s ETC service area. Clearly, AAD has gone beyond its knowledge and authority by creating, on its own, NAL’s ETC service area and then using this newly created WI ETC service area to support its conclusion that NAL’s subscribers were outside of its ETC service area. Through our own subsequent analysis utilizing the mapping software provided by the WI PSC - which allows for more granularity than a list of wire centers - the coverage area manufactured by AAD incorrectly identifies at least 106 wire centers as “rural” which in fact are non-rural. Had we relied on AAD’s ‘coverage area’ in our enrollment process we would have erroneously denied Lifeline services to hundreds of eligible families residing on already under-served Tribal Nations. (Please see Excel document “Audit Finding #1_Incorrect Wire Centers.”)

The WI PSC’s only Data Request, and the WI PSC’s “Notice of Investigation and Request for Comments”, both directed interested parties to either “the exchanges shown in (NAL’s) application” while using the precise language “as indicated in (NAL’s)

application” when addressing the matter of whether or not to approve our requested service area. The only “exchanges” we provided the state were the words: “non-rural areas of Wisconsin including the Tribal Areas of the state”. NAL had no reason to include the language “including the Tribal Areas of the state” in its application if it had only been applying for the non-rural areas. It would be akin to someone applying for a driver’s license and including in their application that the DMV also permit them to drive a Ford. Permitting us to serve Tribal Lands in non-rural areas was already ‘baked’ into our request to serve non-rural lands. There is no special requirement in the state of Wisconsin for an ETC applying to serve only non-rural lands that if not met could hinder its ability to service a non-rural Tribal Area (other than the Tribal Nations themselves, potentially) once approved to service non-rural lands by the PSC. The language we used (“including the Tribal Areas of the state”) was solely and explicitly included in the event of a rural/non-rural overlap of any particular subscriber residing in any particular Tribal Nation. Not a single entity expressed concern about NAL serving Tribal Lands that have overlapping rural/non-rural wire centers. It was understood by all interested parties that nearly all the Tribal Lands in Wisconsin have overlap issues and that we were requesting designation in those lands irrespective of their rural/non-rural designation as established in 1996, especially in light of the fact that many of the areas have changed ownership between rural and non-rural carriers over the years. The Tribal Nations in Wisconsin are by and large geographically contiguous. Carving one eligible subscriber on a particular reservation out of Lifeline because he or she lives one street over (or in certain cases right next door) was a compliance situation we explicitly sought to avoid, thus, our inclusion of the language “including the Tribal Lands of the state”.

We should also note that North American Local does not use agents. NAL’s management approached the Tribal Governments of each federally recognized Tribal Nation in Wisconsin prior to having even received its ETC designation in the state of Wisconsin, and we did so at the suggestion of PSC Staff during an introductory conference call. NAL met with the Tribal Chairs and with each Chair’s approval presented itself before each of the federally recognized Tribal Councils where they each voted to approve a motion to permit (and in certain cases license) NAL to offer its Lifeline products on their Nations. Each Nation granted NAL office space, head-of-department management personnel, and free advertising space within their Nations’ Government print and on-line publications. All of our enrollments were completed inside of Tribal Nation Government offices, and at Tribal Nation Government-sponsored events at which our staff and the staff members of Tribal Nations worked together to enroll Lifeline subscribers residing on the reservations - exclusively. All of this groundwork had been put in place before our application was even approved – again per the suggestion of PSC Staff. If one thing is certain, the Tribal Nations not only wanted us to serve the entire Reservations (no other ETCs were even attempting to serve them), they expected us to.

AAD also attempts to support its “outside of service area” Finding by stating that it “cannot conclude that these subscribers were eligible to receive Lifeline program support.” However, there is no basis upon which to imply these subscribers may have been ineligible. AAD’s statement seemingly seeks to create an appearance of

impropriety and gratuitously casts suspicion on NAL perhaps to support the magnitude of the monetary effect it recommends USAC seek recovery of with respect to NAL's service area. If at any time over this twenty-four (24) month audit process AAD had any concerns about the actual Lifeline eligibility of any of the 615 subscribers (or 509 if you exclude the wire center discrepancy) in this Finding, it could have requested proof of their Lifeline eligibility which they would have promptly received. We are glad to provide proof of their eligibility even now since AAD felt it necessary to cast the doubt.

As AAD also knows, or should know, Wisconsin has established a database to determine a subscriber's eligibility for Lifeline service, consistent with the requirements of federal law. In accordance with 47 CFR § 54.410(b)(2), NAL obtains a determination of eligibility from the state of Wisconsin's Department's Client Assistance for Re-employment and Economic Support ("CARES") database system for each subscriber, including those residing on the Tribal Lands of the state, during the enrollment process as well as during the annual Lifeline recertification process. Based upon CARES' determination of eligibility, NAL seeks and obtains Lifeline support from both the state of Wisconsin and USAC. NAL's Lifeline subscribers residing on the Tribal Areas of the state have all established their eligibility for Lifeline service through the Wisconsin CARES database system and at no time has Wisconsin or any interested party raised any concerns or objections to NAL's receipt of Lifeline support for consumers residing on Tribal Areas, whether they reside on the rural or non-rural areas of the state, so long as those rural areas are on Tribal Lands. Prior to receiving federal Lifeline support, NAL provided USAC with a copy of the *WI NAL ETC Order* to receive a study area code for the receipt of Lifeline support in Tribal areas of Wisconsin. NAL has been serving subscribers on Tribal Nations, that in certain cases have both rural and non-rural wire centers, since February of 2015 and it has been receiving state and federal Lifeline for those subscribers as it requested in its Application. Not a single NAL subscriber residing on rural NON-Tribal Lands had ever been enrolled, much less claimed, on a Form 497 prior to April 2018.

In an effort to remove any potential uncertainty regarding NAL's service area (which admittedly, and in hind-sight, could have been articulated in clearer language the first go-around both by NAL in its Application and the WI PSC in its Order), NAL requested in January 2018, and the Wisconsin PSC granted ninety (90) days later (the first available docket date) in April 2018 - without a single data request, comment, or objection from any interested party - the expansion of its ETC designation to include the entire rural telco study area within the state of Wisconsin further underscoring that it was never any party's intent to deny NAL the ability to service any portion of the Tribal Areas of the state.

NAL asserts that AAD's recommendation to seek 'recovery' of nearly \$170,000 for providing Lifeline services over a two-year span to under-served, and irrefutably Lifeline-eligible Tribal Nation members (and the services were irrefutably provided) based on the most narrow possible interpretation of our designation and its proprietary definition of our coverage area is excessive, erroneous, unjustifiably punitive, and unsupported by the entire set of facts and circumstances surrounding

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NAL’s Wisconsin ETC certification process. Needless to say, NAL respectfully disputes the premise of this Finding and the associated monetary effect.

AAD RESPONSE

The Beneficiary disputes AAD’s conclusion that they are not authorized to serve tribal subscribers. The Beneficiary repeatedly cites its ETC application as support for their position. AAD relied on the actual ETC Order as the basis of our conclusion. As noted in our Condition, the ETC Order issued by the PSC designates North American as an ETC “throughout all the non-rural areas of Wisconsin.” The PSC’s Order does not discuss tribal lands and AAD does not dispute the Beneficiary’s authorization to serve tribal subscribers, as long as those subscribers reside in the non-rural areas of Wisconsin. The Beneficiary indicates in its response that subsequent to our audit period they requested and obtained an expanded ETC designation to include the entire state of Wisconsin. AAD notes that in its request for the expanded designation, the Beneficiary indicated that, “Many of North American’s customers are in the tribal reservation areas that are scattered throughout the State of Wisconsin and parts and potentially all of some of the reservations fall outside of the North American current designated service area.” This statement contradicts the Beneficiary’s assertion that their original ETC designation included the tribal areas of the state.

The Beneficiary asserts in its response that AAD has implied that the Beneficiary is serving customers who are not Lifeline eligible. AAD clarifies that this Finding does not address the eligibility of subscribers in regards to their participation in eligible programs or their income eligibility. This Finding addresses the eligibility of these subscribers to be claimed for reimbursement. Because they reside outside the Beneficiary’s designated ETC service area, they should not have been claimed for reimbursement on the FCC Form 497. As noted in the Condition section above, 615 subscribers resided in rural areas as defined by the Wisconsin PSC; therefore, our position on the Finding remains unchanged.

Finding #2: 47 C.F.R. § 54.410(d) – Improper Certification Documentation Disclosures

CONDITION

AAD obtained and examined certification documentation for a sample of 58 subscribers to determine whether the documentation contained all of the required disclosures. AAD noted the following disclosures were omitted from the subscriber certification documentation:

Disclosure	No. of Affected Subscriber Certification 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)	47
“Only one Lifeline service is available per household” 47 C.F.R. § 54.410(d)(1)(ii)	10
“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)	13
“A household is not permitted to receive Lifeline benefits from multiple providers” 47 C.F.R. § 54.410(d)(1)(iv)	19
“Violation of the one-per-household limitation constitutes a violation of the Commission’s rules and will result in the subscriber’s de-enrollment	9

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from the program” 47 C.F.R. § 54.410(d)(1)(v)	
“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)	47
“The subscriber's full residential address” 47 C.F.R. § 54.410(d)(2)(ii)	5
“Whether the subscriber's residential address is permanent or temporary” 47 C.F.R. § 54.410(d)(2)(iii)	11
“The subscriber's billing address, if different from the subscriber's residential address” 47 C.F.R. § 54.410(d)(2)(iv)	9
“The subscriber's date of birth” 47 C.F.R. § 54.410(d)(2)(v)	7
“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)	5
“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” 47 C.F.R. § 54.410(d)(2)(vii)	11
“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” 47 C.F.R. § 54.410(d)(2)(viii)	54
“require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury” 47 C.F.R. § 54.410(d)(3)	10
“The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in § 54.409” 47 C.F.R. § 54.410(d)(3)(i)	11
“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)	2
“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)	11
“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)(v)	54
“The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law” 47 C.F.R. § 54.410(d)(3)(vii)	45
“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)(viii)	9

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No. of Affected Subscribers⁵	58
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The Beneficiary's subscriber certification documentation did not contain all of the required disclosures. In addition, 11 certifications were not dated or the date on the certification could not be determined to validate when the subscribers completed the eligibility documentation.⁶ The Beneficiary must list all of the required disclosures on the subscriber certification documentation. Because the certification documentation did not contain the required language, the subscribers did not complete the required certifications. Therefore, AAD cannot conclude that these subscribers were eligible to receive Lifeline Program support.⁷

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the required disclosures. The Beneficiary asserts that the certification disclosure requirement can be met using a combination of certification forms and Independent Economic Household (IEH) worksheets.⁸

EFFECT

The monetary effect for this finding represents the total amount of Lifeline support provided to the Beneficiary for the 58 subscribers, based on the date on the subscribers' certification form to the audit period.

Support Type	Monetary Effect (A)	Overlapping Exceptions (B)	Recommended Recovery⁹ (A) - (B)
Tribal Lifeline	\$12,878	\$3,185	\$9,693

RECOMMENDATION

AAD recommends USAC management seek recovery of the recommended recovery amount identified in the Effect section above and consider whether further recovery is appropriate due to the high error rate found within the sample of certification documents reviewed during this audit. The Beneficiary must implement policies and procedures to ensure that it adheres to the disclosure requirements established by the Rules, obtains the proper certifications from its subscribers. AAD also recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to required disclosures on Lifeline subscriber certification documentation. In addition, the Beneficiary can learn more about Lifeline subscriber certification disclosure requirements on USAC's website at <http://www.usac.org/li/program-requirements/verify-eligibility/record-keeping-requirements.aspx>.

⁵ Documentation for each subscriber certification may omit multiple disclosures. Therefore, one certification may be included in multiple rows in the table above.

⁶ See 47 C.F.R. § 54.410(a)(2).

⁷ See 47 C.F.R. § 54.407(a).

⁸ Beneficiary responses to audit inquiries, received Dec. 14, 2018. AAD reviewed the IEH worksheets provided and noted that there are still missing required disclosures. As a result, AAD has included the missing required disclosures in the Condition section.

⁹ To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$3,185 overlaps with the recommended recovery in Finding #1.

BENEFICIARY RESPONSE

NAL has robust policies and procedures in place governing its internal Lifeline operations, which the Company periodically reviews and updates to address evolving regulatory changes. Based upon this audit, NAL will further review its policies and procedures and make any necessary changes, but, as USAC is aware, the Lifeline program has undergone significant changes throughout the time of the audit period and many of the audit findings are no longer applicable since NAL only [sic] the Universal Lifeline Forms for all of its certifications/re-certifications.

Notwithstanding the aforementioned, NAL disputes numerous AAD conclusions in this Finding, specifically the conclusions addressed below:

Section 47CFR 54.410(d)(1)(i) reads:

“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;”

Response: Statement Number 3 of our certification form (which the Subscriber must initial) reads:

“I understand that Lifeline is a federal government benefit program and that willfully making false statements in order to obtain that benefit can be punishable by fine or imprisonment, and that I can be barred from the program.”

Section 47CFR 54.410(d)(1)(ii) reads:

“Only one Lifeline service is available per household”

Response: Statement Number 6 of our certification form (which the Subscriber must initial) reads:

“I certify that my household is is [sic] receiving no more than one Lifeline-supported service and understand that violation of this requirement will result in de-enrollment from the program and could result in criminal prosecution.”

Section 47CFR 54.410(d)(1)(iii) reads:

“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.”

Response: Statement Number 6 of our certification form (which the Subscriber must initial) reads:

“I certify that my household is receiving no more than one Lifeline-supported service and understand that violation of this requirement will result in de-enrollment from the program and could result in criminal prosecution.”

Additionally, each of these subscribers also completed an Independent Economic Household Worksheet (“IEH” or “OPH”) at the time of enrollment as part of the application process. It must also be signed and dated by each subscriber at the time of enrollment. The document begins with the following language (disclosure):

“Lifeline is a government program that provides a monthly discount on home or mobile telephone services. Only ONE Lifeline discount is allowed per household. Members of a household are not permitted to receive service from multiple telephone companies.

Your household is everyone who lives together at your address as one economic unit (including children and people who are not related to you). The adults you live with are part of your economic unit if they contribute to and share in the income and expenses of the household. An adult is any person 18 years of age or older, or an emancipated minor (a person under age 18 who is legally considered to be an adult). Household expenses include food, health care expenses (such as medical bills) and the cost of renting or paying a mortgage on your place of residence (a house or apartment, for example) and utilities (including water, heat and electricity). Income includes salary, public assistance benefits, social security payments, pensions, unemployment compensation, veteran’s benefits, inheritances, alimony, child support payments, worker’s compensation benefits, gifts and lottery winnings.

Spouses and domestic partners are considered to be part of the same household. Children under the age of 18 living with their parents or guardians are considered to be part of the same household as their parents or guardians. If an adult has no income, or minimal income, and lives with someone who provides financial support to that adult, both people are considered part of the household.”

The final disclosure on the IEH/OPH reads:

“I understand that violation of the one-per-household requirement is against the Federal Communication Commission’s rules and may result in me losing my Lifeline benefits, and potentially, prosecution by the United States government.”

Section 47CFR 54.410(d)(1)(iv) reads:

“Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person.”

Response: Statement Number 7 of our certification form (which the Subscriber must initial) reads:

“I understand that I may not transfer my service to any other individual.”

Section 47CFR 54.410(d)(1)(v) reads:

Response: Statement Number 6 of our certification form (which the Subscriber must initial) reads:

“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.”

Section 47CFR 54.410(d)(1)(vi) reads:

“Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person”

Response: Statement Number 7 of our certification form (which the Subscriber must initial) reads:

“Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person”

Section 47CFR 54.410(d)(2)(viii) reads:

“If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in Section 54.409, the number of individuals in his or her household.”

Response: None of the subscribers in this Finding attempted to qualify under the income-based criterion. However, the entire bottom half of Page 3 of our certification form (which they all completed and signed) is dedicated to this criterion including an income table, an example, and a list of the documents the subscriber can provide as proof of their income eligibility.

Section 47CFR 54.410(d)(3)(v) and (vii) reads:

(v): “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 subscriber acknowledges that providing false or fraudulent information to receive Lifeline is punishable by law.”

Response: Statement Number 6 of our certification form (which the Subscriber must initial) reads:

“I certify that my household is receiving no more than one Lifeline-supported service and understand that violation of this requirement will result in de-enrollment from the program and could result in criminal prosecution.”

Additionally, each of these subscribers also completed an Independent Economic Household Worksheet (“IEH” or “OPH”) at the time of enrollment as part of the

application process. It must also be signed and dated by each subscriber at the time of enrollment. The document begins with the following language (disclosure):

“Lifeline is a government program that provides a monthly discount on home or mobile telephone services. Only ONE Lifeline discount is allowed per household. Members of a household are not permitted to receive service from multiple telephone companies.

Your household is everyone who lives together at your address as one economic unit (including children and people who are not related to you). The adults you live with are part of your economic unit if they contribute to and share in the income and expenses of the household. An adult is any person 18 years of age or older, or an emancipated minor (a person under age 18 who is legally considered to be an adult). Household expenses include food, health care expenses (such as medical bills) and the cost of renting or paying a mortgage on your place of residence (a house or apartment, for example) and utilities (including water, heat and electricity). Income includes salary, public assistance benefits, social security payments, pensions, unemployment compensation, veteran’s benefits, inheritances, alimony, child support payments, worker’s compensation benefits, gifts and lottery winnings.

Spouses and domestic partners are considered to be part of the same household. Children under the age of 18 living with their parents or guardians are considered to be part of the same household as their parents or guardians. If an adult has no income, or minimal income, and lives with someone who provides financial support to that adult, both people are considered part of the household.”

The final disclosure on the IEH/OPH reads:

“I understand that violation of the one-per-household requirement is against the Federal Communication Commission’s rules and may result in me losing my Lifeline benefits, and potentially, prosecution by the United States government.”

All of our subscribers complete the Certification form and the IEH/OPH at the time of their original enrollment. However, if not requested by NLAD at recertification they were not subsequently required to complete the IEH/OPH by us. We have provided the Auditor with completed Certifications and IEH/OPHs for the following thirty-nine (39) subscribers. We can provide any or all of them again if necessary.

[AAD removed specific subscriber detail]¹⁰

AAD RESPONSE

The Beneficiary disputes AAD’s conclusion that its certifications omitted the disclosures required by the Rules. AAD reviewed 58 certification\recertification documents as well as the 39 IEH worksheets provided by the carrier. The sample of certifications\recertifications reviewed consisted of three versions of a paper form and interactive voice recordings (IVRs). There was only one version of the IEH worksheets.

Briefing book excludes all materials discussed in Executive Session.

The Beneficiary asserts that, between its certifications and IEH worksheets, the required disclosure language was included. Based on AAD’s review, the examples included in its Beneficiary Response are from later versions of its forms. To the extent the required language was included, AAD did not identify an exception for those subscribers. However, many of the forms sampled and reviewed as part of the audit were prior versions of the forms that omitted pertinent disclosure language. AAD illustrates below which disclosures were included in each version of the certification documents and IVR, and the IEH worksheet.

Disclosure	Certification Version 1	Certification Version 2	Certification Version 3	Certification IVR	IEH Worksheet
“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)	N	N	Y	Y	N
“Only one Lifeline service is available per household” 47 C.F.R. § 54.410(d)(1)(ii)	N	N	Y	Y	Y
“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)	N	N	Y	N	Y
“A household is not permitted to receive Lifeline benefits from multiple providers” 47 C.F.R. § 54.410(d)(1)(iv)	N	N	Y	N	Y
“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)	Y	Y	Y	N	N
“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)	N	N	Y	Y	N
“The subscriber's full residential address” 47 C.F.R. § 54.410(d)(2)(ii)	Y	Y	Y	N	N
“Whether the subscriber's residential address is permanent or temporary” 47 C.F.R. § 54.410(d)(2)(iii)	Y	Y	N	N	N
“The subscriber's billing address, if different from the subscriber's residential address” 47 C.F.R. § 54.410(d)(2)(iv)	Y	Y	Y	N	N
“The subscriber's date of birth” 47 C.F.R. § 54.410(d)(2)(v)	Y	N	Y	N	N
“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)	Y	Y	Y	N	N

¹⁰ The Beneficiary included on its response a list of 39 subscribers’ first names and last names. AAD has removed this information from this report as it is considered personally identifiable information.

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“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” 47 C.F.R. § 54.410(d)(2)(vii)	Y	Y	N	N	N
“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” 47 C.F.R. § 54.410(d)(2)(viii)	N	Y	Y	N	N
“require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury” 47 C.F.R. § 54.410(d)(3)	Y	Y	N	N	N
“The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in § 54.409” 47 C.F.R. § 54.410(d)(3)(i)	Y	Y	N	N	N
“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)	Y	Y	N	Y	N
“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)	Y	Y	N	N	N
“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)(v)	N	Y	N	N	N
“The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law” 47 C.F.R. § 54.410(d)(3)(vii)	N	Y	Y	Y	N
“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)(viii)	Y	Y	Y	N	N

In summary, AAD noted that disclosures were omitted for 45 version 1 certifications; 2 version 2 certifications, 2 version 3 certifications, 9 IVRs and 38 IEH worksheets as noted on the Condition section. As the above chart demonstrates, no single version of a certification\recertification document in combination with the IEH worksheet provided all the necessary disclosures; therefore, our position on the Finding remains unchanged.

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

CONDITION

AAD obtained and examined the Beneficiary’s detailed subscriber listing that was used to complete the FCC Form 497 and compared it to 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. AAD noted the following differences between the Beneficiary’s Form 497 and NLAD:

	No. of Subscribers
Form 497	2,233
NLAD	2,209
Difference	24

Because the Beneficiary is required to transmit requisite information for each new and existing Lifeline subscriber to NLAD (including de-enrollments), the number of subscribers claimed on the Form 497 must not exceed the number of subscribers the Beneficiary identified as active in NLAD for the same period. The Beneficiary must also report the actual number of subscribers on the Form 497 based on subscribers who have met all the requirements to be eligible for Lifeline Program support and for whom the Beneficiary provides Lifeline service.¹¹ Because the Beneficiary did not transmit Lifeline subscriber information to NLAD before claiming the subscribers on the Form 497, AAD cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct number of qualifying Lifeline subscribers on the Form 497 and for transmitting and/or updating its new and existing subscriber data in NLAD. The Beneficiary informed AAD that these discrepancies arose as a result of subscribers who required replacement devices.¹² Due to the design of the underlying carrier’s network platform, these subscribers had to be entered as new subscribers with altered personally identifiable information (PII). In some instances, these alterations were not corrected. This resulted in a mismatch between the subscriber listing and the NLAD data.¹³

¹¹ See 47 C.F.R. §§ 54.407(a), (e) and 54.417(a).

¹² Beneficiary responses to audit inquiries, received Nov. 30, 2018 and Dec. 14, 2018.

¹³ *Id.*

EFFECT

The monetary effect for this Finding represents the total amount of Lifeline support provided to the Beneficiary for the 24 subscribers, as calculated from the date on the subscribers' certification form to determine how many months the subscribers received Lifeline Program support.

Support Type	Monetary Effect & Recommended Recovery
Lifeline	\$213
Tribal Lifeline	\$6,062
Total	\$6,275

RECOMMENDATION

AAD recommends USAC management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement an adequate system to transmit and/or update its new and existing subscriber data in NLAD, and maintain adequate documentation to demonstrate compliance with the Rules. AAD also recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to NLAD requirements. In addition, the Beneficiary can learn more about NLAD requirements on USAC's website at <http://www.usac.org/li/tools/nlad/default.aspx>.

BENEFICIARY RESPONSE

NAL disputes this audit finding in part and opposes the recommendation of AAD. The NLAD snapshot for the audit period of February 2017 shows that NAL had in excess of the "2,209" subscribers that AAD claims NAL had. As such, NAL did not claim more subscribers on its Form 497 than it had in NLAD in that audit period (or any other period for that matter). Regarding the twenty-four (24) subscribers that AAD claims were on our Form 497 but not in NLAD, ten (10) of the subscribers were in fact in NLAD, albeit with slight discrepancies in their names and as such claimable on our Form 497:

[Specific subscriber data redacted]¹⁴

AAD is correct that an underlying carrier platform malfunction contributed to NAL not automatically de-enrolling subscribers for failing to recertify if that subscriber had received a replacement device or had switched from that particular carrier to another of our underlying carriers. This was only happening in cases where the subscriber was also still using their device even if they had failed to certify. That malfunction has been corrected.

¹⁴ The Beneficiary included on its response a list of 9 subscribers' first names and last names. AAD has removed this information from this report as it is considered personally identifiable information.

AAD RESPONSE

The Beneficiary asserts that it had more subscribers in NLAD than it claimed on the Form 497. However, AAD was only able to match 2,209 subscribers from the Beneficiary's Form 497 claim to subscribers listed in NLAD. During the audit period, the Lifeline reimbursement was based on the Form 497 claim and not on the number of subscribers listed in NLAD. The Beneficiary does not dispute that 14 of the 24 subscribers were missing from NLAD. For the remaining 10 subscribers the discrepancies were such that AAD could not conclude that they had a match in NLAD; therefore, our position on the Finding remains unchanged.

Finding #4: 47 C.F.R. § 54.409(c) – Duplicative Support

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing to determine whether the Beneficiary reported the correct number of subscribers on the Form 497. AAD utilized computer assisted auditing techniques to identify combinations of the same subscriber name, address, telephone numbers, birth dates and last four of Social Security Number that represented potential duplicates.¹⁵ AAD identified four instances where the Beneficiary claimed the same individual twice on the Form 497.

The Beneficiary must report the correct number of qualifying subscribers on the Form 497 based on the number of actual qualifying low-income subscribers it serves.¹⁶ Because the subscriber was already receiving a Lifeline service, AAD cannot conclude that the duplicate subscriber is also eligible for Lifeline Program support.

CAUSE

The Beneficiary did not have an adequate process in place to prevent it from providing more than one Lifeline service per household and claiming the duplicate subscribers on the Form 497. The Beneficiary informed AAD that these duplicates were caused by a timing issue that arose when a subscriber switched underlying carrier networks.¹⁷

EFFECT

The monetary effect for this Finding represents the total amount of Lifeline support provided to the Beneficiary for the 4 subscribers, based on the date on the subscribers' Lifeline start date to the audit period.

Support Type	Monetary Effect and Recommended Recovery
Tribal Lifeline	\$582

¹⁵ 47 C.F.R. § 54.409(c).

¹⁶ See 47 C.F.R. § 54.407(a).

¹⁷ Beneficiary responses to audit inquiries, received Dec. 14, 2018.

RECOMMENDATION

AAD recommends USAC management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure that it does not claim support for duplicate subscribers. AAD recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to duplicative support.

BENEFICIARY RESPONSE

NAL disputes this audit Finding and opposes the recommendation of AAD. AAD states that subscribers [redacted]¹⁸ and [redacted]¹⁹ were claimed twice. However NAL has explained that they were only erroneously included twice in the list of subscribers on the Form 497 and they were not claimed twice during the actual 497 claims process. The error occurred when NAL merged two different underlying carrier subscriber databases in response to an audit question. In the process we inadvertently excluded subscribers [redacted]²⁰ and [redacted]²¹ and listed [redacted]²² and [redacted]²³ twice. NAL provided AAD with proof of eligibility for both of these subscribers in August of 2017. The database error occurred when the list was generated for AAD well after it had filed the Form 497. NAL did not rely on that list when actually filing the Form 497 in early March of 2017. It relied on the data from the individual carrier platforms and not on the manual merging of the databases that occurred in response to AAD's audit question. The number of subscribers claimed on NAL's February 2017 Form 497 did not include any duplicate subscribers.

AAD RESPONSE

The Beneficiary asserts that it did not claim duplicate subscribers in its February 2017 Form 497 claim. At the onset of our audit, AAD requested a listing of subscribers who were claimed for reimbursement on the February 2017 Form 497. AAD tested this listing for duplicate subscribers, the subscriber listing provided to AAD contained 4 sets of duplicate subscribers; therefore, our position on the Finding remains unchanged.

Finding #5: 47 C.F.R. § 54.410(d) – Subscriber Eligibility

CONDITION

AAD obtained and examined certification/recertification documentation for a sample of 58 subscribers who were included in the Beneficiary's Form 497 reimbursement claim to determine whether the subscribers met the eligibility requirements to receive Lifeline Program support. AAD noted the following:

¹⁸ The Beneficiary included on its response a subscriber's first name and last name. AAD has removed this information from this report as it is considered personally identifiable information.

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

²³ *Id.*

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- For 4 subscribers, the Beneficiary did not ask, and the subscribers did not provide, both their Social Security Numbers and Date of Birth on their respective certification recording;
- For 1 subscriber, the Date of Birth and Social Security Number was inaudible on the certification recording;
- For 1 subscriber, the Date of Birth on the certification/recertification form did not agree with the Date of Birth on the Beneficiary's subscriber listing; and
- For 3 subscribers, the Social Security Number on the certification form did not agree with the Social Security Number on the Beneficiary's subscriber listing.

Because the certification/recertification documentation was not completed in its entirety, these 9 subscribers did not complete all of the required certifications. Therefore, AAD cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with maintaining required certifications. The Beneficiary was unable to resolve these discrepancies because the certifications were completed prior to the documentation retention rule.²⁴

EFFECT

The monetary effect for this Finding represents the total amount of Lifeline support provided to the Beneficiary for the 9 subscribers, based on the date on the subscribers' Lifeline start date identified in the Beneficiary's documentation to the audit period.

Support Type	Monetary Effect (A)	Overlapping Recovery (B)	Recommended Recovery (A) - (B)²⁵
Tribal Lifeline	\$2,192	\$1,610	\$582

RECOMMENDATION

AAD recommends USAC management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure that it obtains and retains the proper certifications from its subscribers to demonstrate compliance with the Rules. AAD recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to subscriber eligibility.

²⁴ Beneficiary responses to audit inquiries, received Dec. 14, 2018

²⁵ To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$1,610 overlaps with the recommended recovery in Findings #1 and #2.

BENEFICIARY RESPONSE

For the subscriber [redacted]²⁶ which AAD states the date of birth on the certification/recertification did not agree with the subscriber listing, NAL disputes this finding. There were two (2) [redacted]'s²⁷ (father and son). The father's DOB on the list is 02/05/1952 which matches his certification.

For the three subscribers [redacted]²⁸ which AAD states the social security number on their certification/recertification did not agree with the subscriber listing, NAL does not dispute that we had entered one digit erroneously when they were placed in the system, but disputes the monetary effect. The subscribers were eligible and the services were provided. Nonetheless, NAL has implemented policies to review subscriber system data fields for errors.

Similarly with respect to the four (4) IVR errors, NAL does not dispute AAD's finding but does dispute the recommendation. NAL's utilizes on the Universal Lifeline Forms IVR script so this will not occur in the future.

AAD RESPONSE

The Beneficiary disputes that the certification form provided did not match the subscriber sampled from the Beneficiary's subscriber listing. The sampled subscriber had a DOB of 7/2/1982, the certification provided had a DOB of 2/5/1952. The Beneficiary did not provide a certification form that matched the information contained in the subscriber listing; therefore, our position on this subscriber remains unchanged.

The Beneficiary disputes the monetary effect where three certifications did not match the information contained in the subscriber listing. Because the certifications did not match, we could not conclude the subscriber was eligible; therefore, our position on these subscribers remains unchanged.

The Beneficiary disputes our recommendation in the instance of the four IVRs noted. AAD recognizes that the introduction of a universal Lifeline form language will mitigate the risk of this Finding. AAD reiterates its recommendation that the Beneficiary must implement policies and procedures to ensure that it obtains and retains the proper certifications from its subscribers to demonstrate compliance with the Rules; therefore, our recommendation on this Finding remains unchanged.

²⁶ The Beneficiary included on its response a subscriber's first name and last name. AAD has removed this information from this report as it is considered personally identifiable information.

²⁷ *Id.*

²⁸ The Beneficiary included on its response a list of 3 subscribers' last names. AAD has removed this information from this report as it is considered personally identifiable information.

Finding #6: 47 C.F.R. § 54.409(a)(2)&(b)–Improper Qualification Criteria

CONDITION

AAD obtained and examined certification documentation for a sample of 58 subscribers to determine whether the documentation contained all of the required eligibility programs. AAD noted the following eligibility programs were omitted from the subscriber certification documentation:

Eligibility Programs	No. of Affected Subscriber Certification Documentation
“Wisconsin Homestead Credit (Schedule H) & Wisconsin Works (W2)” 47 C.F.R. § 54.409(a)(3) ²⁹	47
“Veterans and Survivors Pension Benefit” 47 C.F.R. § 54.409(a)(2) ³⁰	5
“Low-Income Home Energy Assistance; National School Lunch Program’s free lunch program; or Temporary Assistance for Needy Families; ...Tribally administered Temporary Assistance for Needy Families; Head Start” 47 C.F.R. § 54.409(a)(2) & (b)	2
No. of Affected Subscribers³¹	47

The Beneficiary’s subscriber certification documentation did not contain all of the required eligibility programs. The Beneficiary must adhere to all of the Lifeline qualification criteria established by the Rules.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the required disclosures. The Beneficiary indicated that these exceptions arose due to a lack of understanding of Wisconsin-specific requirements.³²

EFFECT

There is no monetary effect for this Finding, as the subscribers certified that they were eligible to receive Lifeline Program support based on a qualifying criterion listed on the subscriber certification documentation. However, there is the risk that potential subscribers who are otherwise eligible to receive Lifeline Program support may not be aware of the correct qualification criteria based on the Beneficiary’s certification documentation.

RECOMMENDATION

The Beneficiary must implement policies and procedures to ensure that it adheres to the Lifeline qualification criteria established by the Rules. In addition, the Beneficiary can learn more about Lifeline subscriber

²⁹ See *Wisc. Admin. Code Chapter PSC 160*.

³⁰ See *Lifeline and Link Up Reform and Modernization*, WC Docket No. 11-42, Order, 31 FCC Rcd 12718, 12725, 12730, paras. 21, 37 (2016).

³¹ Documentation for each subscriber certification may omit multiple eligibility programs. Therefore, one certification may be included in multiple rows in the table above.

³² Beneficiary responses to audit inquiries, received Dec. 14, 2018.

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eligibility requirements on USAC's website at <https://www.usac.org/li/program-requirements/verify-eligibility/program-eligibility.aspx>.

BENEFICIARY RESPONSE

NAL has updated its Wisconsin-specific eligibility programs and uses the Universal Lifeline Forms during the enrollment process.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.201(b) (2016).	“(b) 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	<i>Application of North American Local, LLC, for Designation as an Eligible Telecommunications Carrier, Docket No. 4178-TI-100, at 1 (Public Service Commission of Wisconsin 2014) (ETC Designation Order).</i>	“This Final Decision designates North American as an ETC only for the purposes of receiving Low-Income support, throughout all of the non-rural areas of Wisconsin.”
#2	47 C.F.R. § 54.410(a)(2) (2016).	“(a) All eligible telecommunications carriers must implement policies and procedures for ensuring that their Lifeline subscribers are eligible to receive Lifeline services. An eligible telecommunications carrier may not provide a consumer with an activated device that it represents enables use of Lifeline-supported service, nor may it activate service that it represents to be Lifeline service, unless and until it has:… (2) Completed the eligibility determination and certification required by this section and §§ 54.404 through 54.405, and completed any other necessary enrollment steps.”
#2, #3, #5	47 C.F.R. § 54.410(d) (2016).	“(d) <i>Eligibility certification form.</i> 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 provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program. (1) The form provided by the entity enrolling subscribers must provide the information in paragraphs (d)(1)(i) through (vi) of this section: (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; (ii) Only one Lifeline service is available per household; (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;

Finding	Criteria	Description
		<p>(iv) A household is not permitted to receive Lifeline benefits from multiple providers;</p> <p>(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</p> <p>(vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person.</p> <p>(2) The form provided by the entity enrolling subscribers must require each prospective subscriber to provide the information in paragraphs (d)(2)(i) through (viii) of this section::...</p> <p>(ii) The subscriber's full residential address;</p> <p>(iii) Whether the subscriber's residential address is permanent or temporary;</p> <p>(iv) The subscriber's billing address, if different from the subscriber's residential address;</p> <p>(v) The subscriber's date of birth;</p> <p>(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;</p> <p>(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;</p> <p>(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.</p> <p>(3) The form provided by the entity enrolling subscribers shall require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury:</p> <p>(i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in § 54.409;</p> <p>(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.</p> <p>(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);...</p> <p>(v) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the</p>

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Finding	Criteria	Description
		<p>subscriber’s household is not already receiving a Lifeline service;...</p> <p>(vii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and</p> <p>(viii) 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).”</p>
#2, #6	47 C.F.R. § 54.407(a)(2015).	“(a) Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier, based on the number of actual qualifying low-income customers it serves.”
#3	47 C.F.R. § 54.404(b)(6), (8), (10) (2016).	<p>“(b) <i>The National Lifeline Accountability Database</i>. 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:....</p> <p>(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....</p> <p>(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....</p> <p>(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.”</p>
#3	47 C.F.R. § 54.417(a) (2016).	“(a) 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. Eligible telecommunications carriers must maintain the documentation required in §§54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from

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Finding	Criteria	Description
		that eligible telecommunications carrier, but for no less than the three full preceding calendar years.”
#3	47 C.F.R. § 54.407(a) & (e) (2016).	<p>“(a) Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income customers it serves directly as of the first day of the month. After the National Verifier is deployed in a state, reimbursement shall be provided to an eligible telecommunications carrier based on the number of actual qualifying low-income customers it serves directly as of the first day of the month found in the National Verifier....</p> <p>(e) 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.”</p>
#4	47 C.F.R. § 54.409(c) (2016).	“(c) 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.”
#6	47 C.F.R. § 54.409(a)(2) & (b) (2015).	<p>“(a) To constitute a qualifying low-income consumer:...</p> <p>(2) The consumer, one or more of the consumer’s dependents, or the consumer’s household must receive benefits from one of the following federal assistance programs: Medicaid; Supplemental Nutrition Assistance Program; Supplemental Security Income; Federal Public Housing Assistance (Section 8); Low-Income Home Energy Assistance Program; National School Lunch Program’s free lunch program; or Temporary Assistance for Needy Families;....</p> <p>(b) A consumer who lives on Tribal lands is eligible for Lifeline service as a ‘qualifying low-income consumer’ as defined by § 54.400(a) and as an ‘eligible resident of Tribal lands’ as defined by § 54.400(e) if that consumer meets the qualifications for Lifeline specified in paragraph (a) of this section or if the consumer, one or more of the consumer’s dependents, or the consumer’s household participates in one of the following Tribal-specific federal assistance programs: Bureau of Indian Affairs general assistance; Tribally administered Temporary Assistance for Needy Families; Head Start (only those households meeting its income qualifying standard); or the Food Distribution Program on Indian Reservations.”</p>
#6	47 C.F.R. § 54.409(a)(2) (2016).	<p>“(a) To constitute a qualifying low-income consumer:...</p> <p>(2) The consumer, one or more of the consumer’s dependents, or the consumer’s household must receive benefits from one of the following federal assistance programs: Medicaid; Supplemental Nutrition Assistance Program; Supplemental Security Income; Federal</p>

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Finding	Criteria	Description
		Public Housing Assistance; or Veterans and Survivors Pension Benefit.”
#6	<i>Lifeline and Link Up Reform and Modernization</i> , WC Docket No. 11-42, Order, 31 FCC Rcd 12718, 12725, 12730, paras. 21, 37 (2016).	<p>“21. We find there is good cause to grant a temporary waiver of the effective date of portions of the <i>2016 Lifeline Modernization Order’s</i> amendments to sections 54.400(j) and 54.409(a) of the Commission’s rules in the states of California, Maryland, Michigan, New York, Utah, Vermont, Washington, and Wisconsin, to allow programs that would otherwise be eliminated to temporarily remain as qualifying programs....</p> <p>37. The Bureau also declines any requests to delay the inclusion of the Veterans and Survivors Pension Benefit Program as a qualifying program for the federal Lifeline benefit....”</p>
#6	Wisc. Admin. Code Chapter PSC 160.	<p>“PSC 160.02 Definitions. The definitions in s. 196.01, Stats., apply in this chapter. In addition, in this chapter:....</p> <p>(17) ‘Lifeline’ means the program that provides reduced monthly service rates for low-income customers....</p> <p>(21) ‘Low-income’ means a household that meets one of the following criteria:</p> <p>(a) Receives benefits from one or more of the following programs:</p> <ol style="list-style-type: none"> 1. Wisconsin works under ss. 49.141 to 49.162, Stats. <p>Note: This includes all programs, including financial and employment assistance, child care subsidy, etc....</p> <ol style="list-style-type: none"> 6. Unless the provider is a federal-only ETC, Wisconsin homestead tax credit under ss. 71.51 to 71.55, Stats.... 10. Temporary assistance for needy families, other than Wisconsin works under ss. 49.141 to 49.161, Stats....”

CenturyLink-Embarq Florida, Inc.

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2017LR009

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EXECUTIVE SUMMARY

March 1, 2019

Jerry Allen
Vice President, Customer Financial Services
CenturyLink-Embarq Florida, Inc.
100 CenturyLink Drive
Monroe, LA 71203

Dear Mr. Allen:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of CenturyLink-Embarq Florida, Inc. (Beneficiary), study area code 210341 disbursements for the month ended April 30, 2016, using the 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. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD 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 AAD 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 AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed three 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 Federal Communications Commission (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.

Briefing book excludes all materials discussed in Executive Session.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Teleshia Delmar', written over a light gray rectangular background.

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Michelle Garber, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Exceptions ¹ (B)	Recommended Recovery (A) - (B)
Finding #1: 47 C.F.R. § 54.404(b) - Form 497 and NLAD Variance The number of subscribers claimed on the FCC Form 497 exceeded the number of subscribers the Beneficiary identified as active in NLAD for the same period.	\$14,726	\$0	\$14,726
Finding #2: 47 C.F.R. § 54.417(a) - Inadequate Documentation: Subscriber Eligibility The Beneficiary's subscribers did not meet eligibility requirement to receive Lifeline support.	\$1,351	\$0	\$1,351
Finding #3: 47 C.F.R. § 54.410(d) - Improper Certification Documentation Disclosures The Beneficiary's subscriber certification and recertification documentation omitted required disclosures.	\$1,508	\$(1,045)	\$463
Total Net Monetary Effect	\$ 17,585	\$(1,045)	\$16,540

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.

¹ If the Beneficiary files an appeal and is successful, USAC will discontinue recovery efforts for the finding(s) that were resolved by the appeal decision. If there is overlapping recovery (*i.e.*, recovery that is included in two or more findings), the overlapping recovery will be recovered based on the finding(s) that were not resolved by the appeal decision.

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its FCC Form 497 (Form 497) for April 2016 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	12,714	\$117,605

BACKGROUND

The Beneficiary is an incumbent eligible telecommunications carrier (ETC) that operates in Florida.

PROCEDURES

AAD performed the following procedures:

A. Form 497

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

B. Certification and Recertification Process

AAD 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. AAD also obtained and examined certification and/or recertification documentation for 58 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Subscriber Listing

AAD 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

AAD obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 58 subscribers.

E. Form 555

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.404(b) – Form 497 and NLAD Variance

CONDITION

AAD obtained and examined the Beneficiary’s detailed subscriber listing that was used to complete the FCC Form 497 and compared it to 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. AAD noted the following differences between the Beneficiary’s Form 497 and NLAD:

	No. of Subscribers
Form 497	12,714
NLAD	12,569
Difference	145

Because the Beneficiary is required to transmit requisite information for each new and existing Lifeline subscriber to NLAD (including de-enrollments), the number of subscribers claimed on the Form 497 must not exceed the number of subscribers the Beneficiary identified as active in NLAD for the same period. The Beneficiary must also report the actual number of subscribers on the Form 497 based on subscribers who have met all the requirements to be eligible for Lifeline Program support and for whom the Beneficiary provides Lifeline service.² Because the Beneficiary did not report the correct number of qualifying subscribers on the Form 497, AAD cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct number of qualifying Lifeline subscribers on the Form 497 and for transmitting and/or updating its new and existing subscriber data in NLAD. The Beneficiary indicated that the variance could be due to inaccurate de-enrollments or not adding subscribers to NLAD prior to snapshot date reporting.³

EFFECT

The monetary effect for this Finding represents the total amount of Lifeline support provided to the Beneficiary for the 145 subscribers, based on the latest of the subscribers’ Lifeline start date identified in the Beneficiary’s documentation to the audit period or the date when the carrier was required to submit their subscribers to NLAD.

Support Type	Monetary Effect & Recommended Recovery
Lifeline	\$14,726

² See 47 C.F.R. § 54.407(a), (e); 47 C.F.R. § 54.417(a).

³ Beneficiary responses to audit inquiries, received Oct. 11, 2018.

RECOMMENDATION

AAD recommends USAC management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement an adequate system to transmit and/or update its new and existing subscriber data in NLAD, and maintain adequate documentation to demonstrate compliance with the Rules. AAD also recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to NLAD requirements. In addition, the Beneficiary can learn more about NLAD requirements on USAC's website at <http://www.usac.org/li/tools/nlad/default.aspx>.

BENEFICIARY RESPONSE

CenturyLink disagrees with the monetary effect for this finding. The scope of this audit requires that the monetary effect be limited to the month under review and does not support recovery of Lifeline discount amounts prior to the audit review period.

For this finding AAD explains that it examined CenturyLink's detailed subscriber listing that we used to complete our FCC Form 497 submitted in May 2016 containing data for April 2016 (pulled on May 1, 2016) and compared that to CenturyLink's subscriber data in the National Lifeline Accountability Database (NLAD). Presumably, but unclear from the finding statement, the NLAD data that AAD used was as of May 1, 2016. This would be important to ensure an apples-to-apples comparison of the data sets. Use of any other date would potentially invalidate the comparison.

In comparing the data, AAD determined that CenturyLink included 12,714 subscribers on its Form 497 but had only 12,569 subscribers in NLAD, a difference of 145 subscribers, or roughly 1% of its Lifeline subscribers in Florida. From here AAD interprets that if these 145 subscribers were not in NLAD on May 1, 2016, they were either never eligible for Lifeline support or had not been eligible since NLAD went live in Florida in March 2014 and that all Lifeline discounts provided to these customers since NLAD went live in Florida in March 2014 should be recovered. CenturyLink views that this proposed monetary recovery is still excessive for the finding. CenturyLink accepts that it did not have every subscriber underlying its Form 497 reflecting its Lifeline customers in April 2016 in NLAD as of May 1, 2016. But CenturyLink disagrees that this means that these customers were not previously eligible for Lifeline support or that these customers were never in NLAD. The scope of the audit does not support these determinations. The audit only found that these customers were not in NLAD on one day in May 2016.

CenturyLink's established processes reflect that a customer would be enrolled in NLAD either prior to receiving Lifeline discounts or simultaneously with receiving a Florida administrator determination of eligibility. If a customer could not be enrolled in NLAD then either they would not be provided Lifeline discounts or if the Lifeline discounts had been automatically added as a result of a Florida administrator determination, they would be removed within a few days of failing NLAD. In turn, the likely reasons that these 145 customers were not in NLAD but were included in the Form 497 count is that either (1) they happened to be in the small window between a Florida administrator determination of eligibility and an NLAD rejection for some reason, (2) order activity on the account such as a change in telephone number or a

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move that would have resulted in the customer being de-enrolled from NLAD without yet being re-enrolled, or (3) for some reason Lifeline credits were provided prior to enrolling the customer in NLAD. In the first scenario the customer would at most be on one Form 497 report. In the latter two scenarios the customer's absence from NLAD would have been temporary and not the result of the customer never being eligible for Lifeline service. To rest the monetary recovery on the premise that the customer was never eligible for Lifeline because they were not in NLAD on one day is not supported and should not be sustained. At most, only recovery for the month audited is warranted by the audit findings.

And, in fact, in reviewing an NLAD snapshot that CenturyLink has from July 2016, CenturyLink has determined that at least 28 of these customers were in NLAD at that time.⁴ Using AAD's logic this should infer that these customers were Lifeline eligible since their start date. While CenturyLink views that the better determination is to limit the monetary finding to the month under review, if AAD intends to extend the monetary recovery back in time, AAD should remove from the finding those customers that were in NLAD soon after the audit period.

Given that the 145 subscribers that were not in NLAD on the date of AAD's USAC snapshot were approximately 1% of CenturyLink's subscribers in Florida under review, this means that CenturyLink had approximately 99% of its subscribers on its Form 497 in NLAD. CenturyLink submits that 99% alignment reflects a process that was adequate to enroll customers in NLAD, but with some issues still to be worked through to further reduce differences between CenturyLink's subscriber information and NLAD's. CenturyLink has continued to review and refine its processes to perfectly align its Lifeline subscriber information with NLAD's. And, with the FCC's elimination of the use of Form 497s for Lifeline reimbursement purposes as of January 2018 such that reimbursement is now only based on a Lifeline provider's subscribers in NLAD, going forward this finding cannot occur.

AAD RESPONSE

Although the Beneficiary accepts that it did not have every subscriber claimed on its Form 497 in NLAD as of May 1, 2016, it disagrees with the monetary effect of the Finding for two reasons: (1) the scope of the audit requires that the monetary effect be limited to the month under review, and (2) certain subscribers at issue were previously eligible for Lifeline support.

AAD disagrees with the Beneficiary's argument that the scope of the audit requires the monetary effect be limited to the month under review. Based on the subscriber's Lifeline start date, the subscribers claimed should have been included in NLAD since the start date and during the month under audit. Therefore, in accordance with GAGAS, the effect was calculated to demonstrate the actual consequences of the Condition.⁵

⁴ See NLAD Subscriber Snapshot Detail Report for June 2016. Columns I, J & L were added to the report to show the customer overlap between the NLAD Snapshot of June 2016 subscribers and CenturyLink's Form 497 of April 2016 subscribers. The highlighted information is the overlap.

⁵ GAGAS, para. 6.77 (2011 Revision).

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Additionally, AAD confirmed with Lifeline Program management that the 145 subscribers at issue were not enrolled in NLAD prior to May 1, 2016 based on the subscribers' personally identifiable information and the subscribers' complete NLAD history as detailed below.

Condition	Number of Subscribers	Number of Months Claimed ⁶	Monetary Effect
Not Enrolled in NLAD	81	1,468	\$13,579
Enrolled after May 1, 2016	46	81	\$749
Denrolled or Transferred Out from the Beneficiary	18	43	\$398
Total	145	1,592	\$14,726

To address the Beneficiary argument of certain subscribers at issue were previously eligible for Lifeline support, AAD acknowledges that while the 28 subscribers identified by Beneficiary were in NLAD in June 2016, AAD found no indication that these subscribers were eligible prior to May 1, 2016.

For these reasons, our position on the Finding remains unchanged.

Finding #2: 47 C.F.R. § 54.417(a) – Inadequate Documentation: Subscriber Eligibility

CONDITION

AAD obtained and examined eligibility and certification/recertification documentation for a sample of 58 subscribers who were included in the Beneficiary's Form 497 reimbursement claim to determine whether the subscribers met the eligibility requirements to receive Lifeline Program support. AAD noted the following:

- For 7 subscribers, the State of Florida provided documentation that demonstrated the subscribers were ineligible for Lifeline Program support;
- For 9 subscribers, the date of birth on the certification form did not agree with the date of birth on the Beneficiary's subscriber listing;
- For 2 subscribers, the Social Security Number on the certification form did not agree with the Social Security Number on the Beneficiary's subscriber listing; and
- For 8 subscribers, the date of birth and Social Security Number on the certification form did not agree with the date of birth and Social Security Number on the Beneficiary's subscriber listing.

Because the documentation was not adequate to confirm eligibility for these 26 subscribers, AAD cannot conclude that these subscribers were eligible to receive Lifeline Program support.⁷

⁶ AAD relied on the the Beneficiary provided Lifeline start date or the date the carrier was required to submit their subscribers to NLAD for this calculation, whichever was later.

⁷ See 47 C.F.R. § 54.407(a).

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with maintaining required documentation. The Beneficiary informed AAD that adequate documentation was not maintained and that there were customer service errors made when entering subscriber data.⁸

EFFECT

The monetary effect for this Finding represents the total amount of Lifeline support provided to the Beneficiary for the 24 subscribers, based on the date on the subscribers' certification form to the audit period.

Support Type	Monetary Effect & Recommended Recovery
Lifeline	\$1,351

RECOMMENDATION

AAD recommends USAC management seek recovery of the recommended recovery amount identified in the Effect section above and consider whether further recovery is appropriate due to the high error rate found within the sample of eligibility documentation reviewed during this audit. The Beneficiary must implement policies and procedures to ensure that it obtains and retains the proper certifications from its subscribers to demonstrate compliance with the Rules. AAD recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to subscriber eligibility.

BENEFICIARY RESPONSE

CenturyLink regrets the errors noted in this finding and has continued to work to improve its processes to minimize these types of errors. As states continue to move into the National Verifier, CenturyLink will be relieved of the eligibility determination processes in which these errors occurred.

AAD RESPONSE

The Beneficiary indicates that they will be relieved of the responsibility of determining subscriber eligibility with the establishment of the National Verifier. AAD clarifies that even with the establishment of the National Verifier, the ETCs remain responsible for requesting Lifeline support only for eligible subscribers.⁹

Finding #3: 47 C.F.R. § 54.410(d) – Improper Certification Documentation Disclosures

CONDITION

AAD obtained and examined certification documentation for a sample of 46 subscribers to determine whether the documentation contained all of the required disclosures.¹⁰ AAD noted the following disclosures were omitted from the subscriber certification documentation:

⁸ Beneficiary responses to audit inquiries, received Oct. 11, 2018.

⁹ See FCC Public Notice DA 17-636.

¹⁰ IAD requested 58 certification\recertification forms. The state of Florida determined Lifeline eligibility for 12 of the sampled subscribers; thus, AAD obtained and examined the certification/recertification forms for 46 subscribers.

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Disclosure	No. of Affected Certifications
“Whether the subscriber's residential address is permanent or temporary” 47 C.F.R. § 54.410(d)(2)(iii)	15
“The subscriber's billing address, if different from the subscriber's residential address” 47 C.F.R. § 54.410(d)(2)(iv)	24
No. of Affected Subscribers¹¹	24

The Beneficiary’s subscriber certification documentation did not contain all of the required disclosures. The Beneficiary must list all of the required disclosures on the subscriber certification documentation. Because the certification documentation did not contain the required language, the subscribers did not complete the required certifications. Therefore, AAD cannot conclude that these subscribers were eligible to receive Lifeline Program support.¹²

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the required disclosures. The Beneficiary stated that there was a misunderstanding that the billing address needed to be included on the form as well as an oversight in including the temporary address question.¹³

EFFECT

The monetary effect for this finding represents the total amount of Lifeline support provided to the Beneficiary for the 24 subscribers, based on the date on the subscribers’ certification form to the audit period.

Support Type	Monetary Effect (A)	Overlapping Recovery (B)	Recommended Recovery (A) – (B) ¹⁴
Lifeline	\$1,508	\$1,045	\$463

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amount identified in the Effect section above and consider whether further recovery is appropriate due to the high error rate found within the sample of eligibility documentation reviewed during this audit. The Beneficiary must implement policies and procedures to ensure that it adheres to the disclosure requirements established by the Rules, obtains the proper certifications from its subscribers, and maintains documentation to demonstrate compliance with the Rules. AAD also recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to required disclosures on Lifeline subscriber certification documentation. In addition, the Beneficiary can learn more about Lifeline subscriber certification disclosure requirements on USAC’s website at <http://www.usac.org/li/program-requirements/verify-eligibility/record-keeping-requirements.aspx>.

¹¹ Documentation for each subscriber certification may omit multiple disclosures. Therefore, one certification may be included in multiple rows in the table above.

¹² See 47 C.F.R. § 54.407(a).

¹³ Beneficiary responses to audit inquiries, received Oct. 11, 2018.

¹⁴ To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$1,045 overlaps with the recommended recovery in Finding #2.

BENEFICIARY RESPONSE

CenturyLink views that this finding elevates form over substance in a manner that unnecessarily penalizes a wireline provider and should be removed.

For this finding the AAD reviewed certification documentation for 46 subscribers to see whether the documentation contained all the required disclosures. AAD determined that two certifications were not included on CenturyLink's recertification form, namely "whether the subscriber's residential address is permanent or temporary" and "the subscriber's billing address, if different from the subscriber's residential address". These two certifications have no practical application to the provision of fixed wireline service. The only location at which a customer can receive voice or broadband service from a wireline provider is at the customer's service address. Wireline providers must know their customer's service address to provide the service and there is no ability for a customer to request service at one address but use the service at another address. This is different from the wireless context where a customer could provide an address for service that is different from where they actually live, i.e. in which household location they reside and are actually taking the service. Mobile wireless service depends on the customer providing information on where they live and are using the service to determine compliance with the Lifeline one-per-household rule. Fixed wireline service just requires the service address that the provider already has to determine compliance with the one-per household rule.

The service address is the address that CenturyLink pre-populated on its recertification form – the address at which the customer was already receiving Lifeline service. Similarly, the service address is also the address that the customer verified through CenturyLink's IVR recertification process when it was in use. If the customer signed the re-certification form with the service address, then they certified the address at which they were already receiving the Lifeline-discounted service. If the customer verified the address on the IVR, then they certified the address at which they were already receiving the Lifeline-discounted service. There is nothing that a customer can say about their address that will change the address at which they are actually receiving Lifeline service. Thus, to conclude that because a fixed wireline provider did not include the customer disclosures about address means that the customer is not eligible for Lifeline service is illogical.

Further, it is not even clear how the permanent or temporary residence disclosure is used to determine Lifeline eligibility. When the FCC initially adopted this disclosure language it also adopted rules for providers to check on whether any temporary residence status had changed every 90-days and to de-enroll customers if they failed to respond to temporary address recertification.¹⁵ After industry push-back on the

¹⁵ *In the Matter of Lifeline and Link Up Reform and Modernization*, Report and Order and Further Notice of Proposed Rulemaking, FCC 12-11, WC Docket No. 11-42, (rel. Feb. 6, 2012), paras. 85-89 and Appendix A (Final Rules), §§ 54.405(e)(4) & 54.410(g).

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excessive burdens associated with these rules with minimal program benefit, the FCC withdrew its request to have these rules approved by the Office of Management and Budget and the rules never became effective.¹⁶ The rules were subsequently eliminated when the FCC revised its rules in 2016.¹⁷ Given that the rules intended to implement the temporary address disclosure requirement were never effective and subsequently removed, it is questionable that the disclosure requirement serves any substantive purpose at all.

With respect to determination of Lifeline eligibility, nothing different happens if a customer certifies that their address is permanent or temporary. And, for a fixed wireline customer, nothing different happens if their billing address is different from their residential/service address. To conclude that a CenturyLink customer was not eligible for Lifeline service because these disclosures were not available to them during recertification ignores reality and illogically elevates form over substance.

Going forward, this will not be an issue for CenturyLink because it has ceased using an IVR process for recertification and it uses the FCC/USAC-mandated certification, recertification and household worksheet forms.

AAD RESPONSE

The Beneficiary asserts in its response that AAD's application of the Rules elevates form over substance and unnecessarily penalizes a wireline provider. These statements are policy arguments and USAC is prohibited from engaging in or making policy. AAD reiterates that 47 C.F.R. § 54.410(d)(2)(iii) requires the Beneficiary's subscriber to indicate if their address is permanent or temporary. Whether a subscriber considers their address permanent or temporary is not relevant to the type of service provided to that subscriber. This rule was in place during the audit period and remains in place today. Fifteen of the Beneficiary's Interactive Voice Responses (IVR) did not contain this disclosure.

47 C.F.R. § 54.410(d)(2)(iv) requires the Beneficiary's subscriber to indicate if their billing address is different from their residential address. This disclosure is also required on recertification documentation. Completion of a valid certification/recertification is part of confirming subscriber eligibility. Fifteen of the Beneficiary's IVRs and nine of its recertification forms were missing this required disclosure; therefore, our position on the Finding and the monetary effect of the Finding remains unchanged.

¹⁶ Public Notice, Wireline Competition Bureau Provides Notice Regarding the Effective Date of Certain Rules Adopted in the Lifeline Reform Order, DA 12-689, WC Docket No. 11-42 (rel. May 1, 2012), n. 2 & n. 17. See also, OMB Control Number 3060-0819, Notice of Office of Management and Budget Action, 4/13/2012, noting in Terms of Clearance that the information collections regarding temporary address confirmation and recertification of 47 CFR § 54.410(g) and the portion of § 54.405(e)(4) regarding temporary address de-enrollment had been withdrawn and thus not part of the OMB approval provided therein.

¹⁷ Without fanfare the temporary address confirmation, recertification and de-enrollment requirements of §§ 54.405(e)(4) & 54.410(g) are removed. See *In the Matter of Lifeline and Link Up Reform and Modernization*, Third Report and Order, Further Report and Order, and Order on Reconsideration, FCC 16-38, WC Docket No. 11-42 (rel. Apr. 27, 2016), Appendix A (Final Rules), §§ 54.405(e)(4) & 54.410(g).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.404(b)(6), (8), (10) (2015)	<p>“(b) <i>The National Lifeline Accountability Database</i>. 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:....</p> <p>(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....</p> <p>(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....</p> <p>(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.”</p>
#1, 2	47 C.F.R. § 54.417(a) (2015)	<p>“(a) 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. Eligible telecommunications carriers must maintain the documentation required in §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years.”</p>
#1, 2, 3	47 C.F.R. § 54.407(a), (e) (2015)	<p>“(a) Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income customers it serves directly as of the first day of the month. ...</p> <p>(e) 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.”</p>

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Finding	Criteria	Description
#3	47 C.F.R. § 54.410(d)(2)(iii)-(iv) (2015)	<p>“(d) <i>Eligibility certifications.</i> 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:....</p> <ul style="list-style-type: none">(2) Require each prospective subscriber to provide the following information:...(iii) Whether the subscriber's residential address is permanent or temporary;(iv) The subscriber's billing address, if different from the subscriber's residential address.”