



High Cost and Low Income Committee

Audit Briefing Book

January 28, 2019

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

Universal Service Administrative Company

700 12th Street NW, Suite 900

Washington, DC, 20005

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: September 1, 2018 – October 31, 2018

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect *	USAC Management Recovery Action *	Entity Disagreement
Verizon New York Inc. (NY)	2	<ul style="list-style-type: none"> <u>Inadequate Documentation -- Access Line Counts</u>: The Beneficiary did not provide adequate documentation to demonstrate the accuracy of its reported access lines counts. 	\$5,843,562	\$(58,498)	\$0	N
Chesnee Telephone Company, Inc. (SC)	2	<ul style="list-style-type: none"> No material findings. ** 	\$1,013,418	\$3,452	\$3,452	N
Progressive Rural Telephone Co-Op, Inc. (GA)	1	<ul style="list-style-type: none"> No material findings. 	827,967	\$1,701	\$1,701	N
CenturyLink, Inc.	0	<ul style="list-style-type: none"> None. 	\$641,925	\$0	\$0	N
Total	5		\$8,326,872	(\$53,345)	\$5,153	

* The “Monetary Effect” amount may exceed the “USAC Management Recovery Action” amount if there are findings that do not warrant a recommended recovery or if there are multiple findings within an audit that have overlapping exceptions between them.

** The audit findings are set forth in the Audit Report. Based on the dollar recovery amount, the findings are not material.

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: November 1, 2018 – November 30, 2018

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Farmers Independent Telephone Company	3	• No significant findings.	\$560,292	(\$709)**	\$0**	N
Halstad Telephone Company	2	• No significant findings.	\$906,496	\$896	\$896	N
Sand Creek Telephone	2	• No significant findings.	\$303,114	\$1,940	\$1,940	N
Total	7		\$1,769,902	\$2,127	\$2,836	

* The “Monetary Effect” amount may exceed the “USAC Management Recovery Action” amount if there are findings that do not warrant a recommended recovery or there are multiple findings within an audit that have overlapping exceptions between them.

** The total monetary effect of the audit findings represent a net underpayment of support. It is USAC’s policy to not recover or issue support in the case of net underpayment. Thus, USAC’s recovery action is \$0.

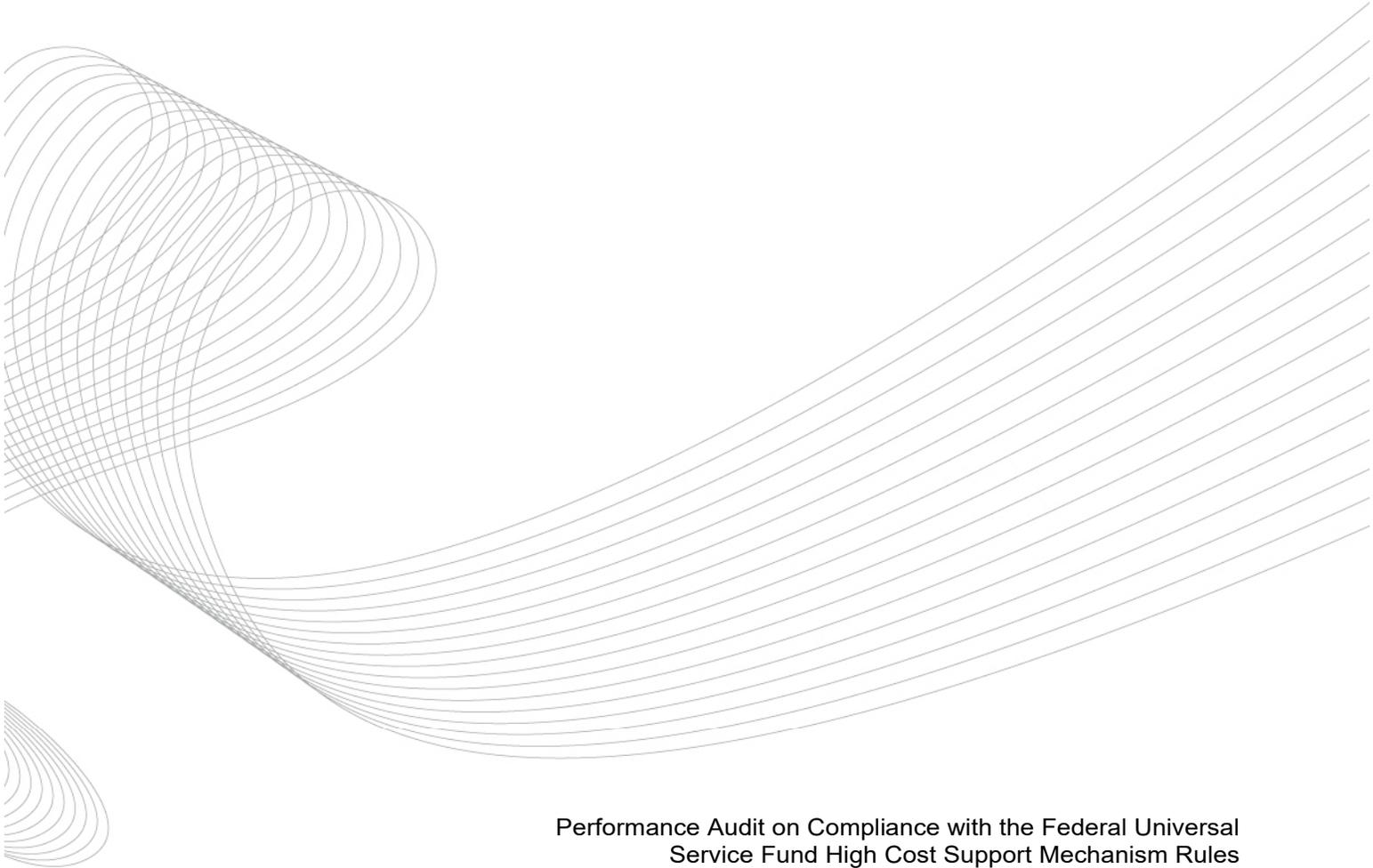
Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: December 1, 2018 – December 31, 2018

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Entity Disagreement
Citizen Utilities Company	2	<ul style="list-style-type: none"> No significant findings. 	\$2,066,373	(\$21,963)**	\$0*	N
Kaleva Telephone Company	2	<ul style="list-style-type: none"> <u>Inaccurate Access Line Counts.</u> The line counts reported for High Cost Program purposes were not supported by the documentation. 	\$1,009,849	\$16,839	\$16,839	N
Cross Telephone HC - ATTACHMENT A	8	<ul style="list-style-type: none"> <u>Improper treatment of substantial rent expense paid to an affiliate.</u> The Beneficiary improperly included \$2,906,004 in rent expenses paid to an affiliate in its 2013 HCP filings, instead of removing the rent expenses and including the rented plant and associated expenses. 	\$6,289,399	\$8,286,794***	\$8,286,794	Y
Total	12		\$9,365,621	\$8,281,670	\$8,303,633	

* The “Monetary Effect” amount may exceed the “USAC Management Recovery Action” amount if there are findings that do not warrant a recommended recovery or there are multiple findings within an audit that have overlapping exceptions between them.

** The total “Monetary Effect” of the audit findings represents a net underpayment of support. It is USAC’s policy to not recover or issue support in the case of net underpayment. Thus, USAC’s recovery action is \$0.

*** The scope of the audit was 2013. However, given the nature of the incorrect treatment of substantial rent expense paid to an affiliate audit finding, the scope for this audit finding was expanded to include 2010, 2011, 2012 and 2014. The disbursements for the additional years totaled \$23,425,394. Thus, the “Monetary Effect” for the five years associated with the incorrect treatment of substantial rent expense paid to an affiliate audit finding exceeds the total “Amount of Support” the carrier received for 2013.



Performance Audit on Compliance with the Federal Universal
Service Fund High Cost Support Mechanism Rules

Cross Telephone Company
USAC Audit ID: HC2016BE031
SAC No.: 431985

Disbursements Made During the
Year Ended December 31, 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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EXECUTIVE SUMMARY

October 4, 2018

Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Attention: Ms. Telesha Delmar

This report represents the results of Moss Adams LLP's (we, us, our, and Moss Adams) work conducted to address the performance audit objectives relative to Cross Telephone Company, Study Area Code (SAC) No. 431985, (Cross or Beneficiary) for disbursements of \$6,289,399 made from the Universal Service High Cost Program (HCP) (Disbursements) during the year ended December 31, 2015. At your request, we have also calculated the estimated monetary impacts of the issue identified in Finding #1 on HCP disbursements during the years ended December 31, 2012, 2013, 2014, and 2016, based on information provided by the Beneficiary related to that finding.

We conducted our performance audit in accordance with the standards applicable to performance audits contained in generally accepted *Government Auditing Standards*, issued by the Comptroller General of the United States (2011 Revision). Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our 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 conclusions. We believe the evidence we have obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. However, our performance audit does not provide a legal determination of the Beneficiary's compliance with specified requirements.

The objective of this performance audit was to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in of 47 C.F.R. Part 54, Subparts C, D, K, and M; Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B as well as the Federal Communications Commission's (FCC) Orders governing federal Universal Service Support for the HCP relative to the disbursements (collectively, the Rules).

Ms. Telesha Delmar
Universal Service Administrative Company
October 4, 2018

Based on the test work performed, our audit disclosed 8 detailed audit findings (Finding or Findings) discussed in the Audit Results section. For the purpose of this report, a Finding is a condition that shows evidence of noncompliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with Universal Service Administrative Company (USAC) management or other officials and/or details about internal operating processes or investigations.

This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

Moss Adams LLP

Overland Park, Kansas
October 4, 2018

Audit Results

Audit Results	Monetary Effect	Recommended Recovery
<p>Finding #1: 47 C.F.R. § 36.2(c)(2) - Incorrect treatment of substantial rent expense paid to an affiliate: The Beneficiary incorrectly included \$2,906,004 of rent expense paid to an affiliate in its 2013 HCP filings instead of properly removing the rent expense and including the rented plant and associated expenses. Additional work performed also indicates the Beneficiary incorrectly included the affiliate rent expense and did not include the rented plant and related expenses in its HCP filings for the years 2010, 2011, 2012 and 2014. The 2010 HCP filings included \$1,481,215 of affiliate rent expense. The 2011 HCP filings included \$2,461,630 of affiliate rent expense. The 2012 HCP filings included \$1,843,004 of affiliate rent expense. The 2014 HCP filings included \$2,820,657 of affiliate rent expense.</p>	\$8,251,829	\$8,251,829
<p>Finding #2: 47 C.F.R. § 64.901- Lack of nonregulated adjustments for common costs: The Beneficiary has common costs attributable to both regulated and nonregulated activities and failed to remove \$91,901 of nonregulated expenses from its HCP filings.</p>	\$8,587	\$8,587
<p>Finding #3: 47 C.F.R. § 64.901- Incorrect nonregulated adjustments for rate base and expenses: The Beneficiary made nonregulated adjustments for general support expenses, but failed to remove the associated assets and accumulated depreciation. In addition, the nonregulated adjustments were based on 2012 information and should have been based on 2013.</p>	\$15,780	\$15,780

Audit Results	Monetary Effect	Recommended Recovery
Finding #4: 47 C.F.R. § 36.611(h) – Underreported loops: The Beneficiary underreported its total loops by 3 in its 2014-1 HCLS filing.	\$2,882	\$2,882
Finding #5: 47 C.F.R. § 54.320(b) – Lack of supporting invoice documentation: The Beneficiary was unable to provide supporting invoice documentation for two of the 65 individual transactions selected from expense accounts.	\$1,680	\$1,680
Finding #6: 47 C.F.R. § 54.7(a) and 47 C.F.R. § 65.450(a) – Disallowed expenses: The Beneficiary included \$18,798 of expenses in its HCP filings that were not related to provisioning, maintaining, or upgrading telecommunications services.	\$3,646	\$3,646
Finding #7: 47 C.F.R. § 32.6512(b) – Clearing of provisioning expense: The Beneficiary did not clear \$59,644 from provisioning expense to plant under construction or plant specific operations expense.	\$2,390	\$2,390
Finding #8: 47 C.F.R. § 32.12(b) and 47 C.F.R. § 54.320(b) – Payroll allocations: The Beneficiary allocated its 2013 payroll and related benefits based on a 2008 time study and was unable to provide documentation to support the time study was still appropriate for 2013 payroll allocations.	\$0	\$0
Total Net Monetary Effect	\$8,286,794	\$8,286,794

USAC Management Response

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

	ICLS	LSS	HCL	USAC Recovery Action
Finding #1	\$1,595,110	\$479,390	\$6,177,329	\$8,251,829
Finding #2	\$2,636	\$0	\$5,951	\$8,587
Finding #3	\$10,538	\$0	\$5,242	\$15,780
Finding #4	\$0	\$0	\$2,882	\$2,882
Finding #5	\$445	\$0	\$1,235	\$1,680
Finding #6	\$3,646	\$0	\$0	\$3,646
Finding #7	\$10,249	\$0	(\$7,859)	\$2,390
Finding #8	\$0	\$0	\$0	\$0
Mechanism Total	\$1,622,624	\$479,390	\$6,184,780	\$8,286,794

As a result of the audit, USAC management will recover \$8,286,794 of High Cost Program support from the Beneficiary for SAC 431985.

Background and Program Overview

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunications exchange services, including local access, long distance, and Internet services to residential and business customers residing in areas of northeastern Oklahoma.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program (HCP), a component of the USF, ensures that consumers in all less populated areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. The HCP consists of the following support mechanisms:

- High cost loop support (HCLS): HCLS is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per loop. HCLS includes the following:
 - Safety net additive (SNA): SNA support is available for carriers that make significant investment in rural infrastructure in years when HCLS is capped and is intended to provide carriers with additional incentives to invest in their networks.
 - Safety valve support (SVS): SVS is available to rural carriers that acquire high cost exchanges and make substantial post-acquisition investments to enhance network infrastructure.
- High cost model (HCM): HCM support is available to carriers serving wire centers in certain states where the forward looking costs to provide service exceed the national benchmark.
- Local switching support (LSS): LSS was available to rural incumbent local exchange carriers (ILEC) serving 50,000 or fewer lines and is designed to help recover the high fixed switching costs of providing service to fewer customers. LSS was phased out June 30, 2012, and was replaced by the Connect America Fund (CAF) as of July 1, 2012.
- Connect America Fund Inter-carrier Compensation support (CAF ICC): CAF ICC support was established in the *2011 Transformation Order* as part of the transitional recovery mechanism adopted to mitigate the effect of reduced inter-carrier compensation revenues. CAF ICC is the universal service support available to cover the difference between the amount of recovery a carrier is eligible to receive and the amount it may recover through permitted end user charges. For rate-of-return incumbent LECs, the baseline recovery was established at a fixed amount in 2012 and is reduced by five percent annually. CAF ICC disbursements began July 1, 2012.

- Interstate common line support (ICLS): ICLS is available to ILECs and is designed to help its recipients recover common line revenue requirement while ensuring the subscriber line charge (SLC) remains affordable to customers. The common line revenue requirement is related to facilities that connect end users to the carrier's switching equipment.
- Interstate access support (IAS): IAS is available to price-cap ILECs and competitive carriers, and is designed to offset interstate access charges.

Objective, Scope, and Audit Methodology

OBJECTIVE

The objective of our performance audit was to evaluate the Beneficiary's compliance with 47 C.F.R. Part 54, Subparts C, D, K, and M; Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B as well as the Federal Communications Commission's Orders governing Federal Universal Service Support for the HCP relative to the disbursements for the 12-month period ended December 31, 2015.

This performance audit did not constitute an audit of financial statements in accordance with *Government Auditing Standards*. We were not engaged to, and do not render an opinion on the Beneficiary's internal control over financial reporting or internal control over compliance. We caution that projecting the results of our evaluation on future periods is subject to the risks that controls may become inadequate because of changes in conditions that affect compliance.

SCOPE

The following chart summarizes the Universal Service High Cost Program support that was included in the scope of this audit:

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2014- 6/30/2015 & 7/1/2015- 6/30/2016	12/31/2015	\$2,026,674
High Cost Loop Support (HCLS)	12/31/2013	12/31/2015	\$2,688,163
Interstate Common Line Support (ICLS)	12/31/2013	12/31/2015	\$1,574,562
Total			\$6,289,399

ADDITIONAL WORK

At USAC's request, we determined that the affiliate circuit rent expense that resulted in finding 1 was also present in the high cost forms filed for the three years prior to and the one year after the 2013 data period. We did not perform any other procedures outlined in the audit methodology section for these additional periods. The following charts summarize the Universal Service High Cost Program support related to the incorrect treatment of substantial rent expense paid to an affiliate for the disbursement period years ended December 31, 2012, 2013, 2014, and 2016:

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2012-6/30/2013	12/31/2012	\$517,344
High Cost Loop Support (HCLS)	12/31/2010	12/31/2012	\$2,770,706
Interstate Common Line Support (ICLS)	12/31/2010	12/31/2012	\$2,048,760
Local Switching Support (LSS)	12/31/2010	12/31/2012	\$53,934
Total			\$5,390,744

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2012-6/30/2013 & 7/1/2013-6/30/2014	12/31/2013	\$1,243,590
High Cost Loop Support (HCLS)	12/31/2011	12/31/2013	\$2,609,316
Interstate Common Line Support (ICLS)	12/31/2011	12/31/2013	\$1,930,164
Local Switching Support (LSS)	12/31/2011	12/31/2013	\$336,258
Total			\$6,119,328

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2013-6/30/2014 & 7/1/2014-6/30/2015	12/31/2014	\$1,636,986
High Cost Loop Support (HCLS)	12/31/2012	12/31/2014	\$2,353,947
Interstate Common Line Support (ICLS)	12/31/2012	12/31/2014	\$2,004,204
Local Switching Support (LSS)	12/31/2012	12/31/2014	\$0
Total			\$5,995,137

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2015-6/30/2016 & 7/1/2016-6/30/2017	12/31/2016	\$1,557,192
High Cost Loop Support (HCLS)	12/31/2014	12/31/2016	\$2,624,227
Interstate Common Line Support (ICLS)	12/31/2014	12/31/2016	\$1,738,766
Local Switching Support (LSS)	12/31/2014	12/31/2016	\$0
Total			\$5,920,185

AUDIT METHODOLOGY

To accomplish our audit objective, we performed the following procedures:

Reconciliation – We reconciled the December 31, 2013 and 2012, trial balances to the separations and Part 64 study inputs and then to the applicable HCP Forms, obtained explanations for any variances, and evaluated the explanations for reasonableness.

Rate Base and Investment in Network Facilities – We utilized an attribute sampling methodology to select asset samples from central office equipment (COE) and cable and wire facilities (CWF) accounts. Asset selections were made from continuing property record (CPR) detail. We determined that balances for the selected assets were properly supported by underlying documentation such as work order detail, third-party vendor invoices, materials used sheets, and time and payroll documentation for labor and related costs. We agreed the amounts charged to work order detail and verified the proper general ledger coding under Part 32. In addition, we verified the physical existence of selected assets.

Tax Filing Status – We verified the tax filing status for the Beneficiary and obtained and reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness.

Postretirement Benefit Liability Accounting – The Beneficiary does not have any postretirement benefit plans; therefore, no testing was performed.

Expenses – We utilized an attribute sampling methodology to select expense samples from operating expense accounts that impact HCLS, ICLS, and CAF ICC. Payroll selections were made from a listing of employees. We agreed the amounts to supporting documentation such as time sheets, labor distribution reports, and approved pay rates, and verified the costs were coded to the proper Part 32 account. We reviewed benefits and clearings for compliance with Part 32.

We made other disbursement selections from accounts payable transactions and agreed amounts to supporting documentation, reviewing for proper coding under Part 32. We selected a sample of manual journal entries to ensure reclassifications between expense accounts were appropriate and reasonable.

Affiliate Transactions – We performed procedures to assess the reasonableness of affiliate transactions that occurred during the period under audit. These transactions involved the provision of services between the Beneficiary and other entities with common ownership. We noted the Beneficiary holds equity ownership in five entities. These affiliates include Cross Cablevision, LLC (100% ownership), Cross Wireless, LLC (100% ownership), Optictel, LLC (20% ownership), Optictel LD, LLC (16.7% ownership), and Cross-Valliant Cellular Wireless Partnership (50% ownership). The Beneficiary is also affiliated, through common ownership, with MBO Holdings, LLC, which holds equity interests in several nonregulated companies, including MBO Video, LLC.

The Beneficiary purchases services from Cross Cablevision, Cross Wireless, MBO, LLC, Optictel LD, MBO Video, and Cross-Valliant Cellular.

We selected a sample of various types of transactions to determine if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and categorized in the appropriate Part 32 accounts. The following transactions were selected for testing:

- Cable services – Cross Cablevision provides cable television service to the Beneficiary. Transactions occur at prevailing price.
- Wireless services – Cross Wireless provides wireless telecommunications service to the Beneficiary. Transactions occur at prevailing price.
- Transport services – MBO Video provides transport services to the Beneficiary for the use of plant facilities owned by MBO Video. Transactions occur at rates based on historical tariffed rates from other interexchange carriers.
- Long distance services – Optictel LD provides long distance service to the Beneficiary. Transactions occur at prevailing price.

Revenues and Subscriber Listings - We tested revenue general ledger accounts, subscriber bills, and other documentation to verify the accuracy and existence of revenues. We utilized an attribute sampling methodology to select revenue samples from subscriber listings. Our testing of subscriber bills consisted of procedures to ensure the lines were properly classified as residential, single-line business, or multi-line business. In addition, we reconciled the revenues reported to National Exchange Carrier Association (NECA) to the general ledger and billing support. We obtained subscriber listings and billing records to determine the lines or loops reported in the HCP filings agreed to supporting documentation. Our analysis included reviewing the listing for duplicate lines, invalid data, and nonrevenue producing lines.

Part 64 Allocations – We reviewed the Beneficiary’s cost apportionment methodology and assessed the reasonableness of the allocation methods and corresponding data inputs used to calculate the factors, recalculated the material factors, and recalculated the material amounts allocated. We also evaluated the reasonableness of the assignment between regulated, nonregulated, and common costs and the apportionment factors as compared to the regulated and nonregulated activities performed by the Beneficiary.

COE and CWF Categorization – We reviewed the methodology for categorizing assets including a comparison to network diagrams. We reconciled the COE and CWF amounts to the cost studies and agreed them to the applicable HCP Forms. In addition, we reviewed power and common allocation and physically inspected a sample of COE assets and tested route distances of CWF for reasonableness.

Revenue Requirement – We recalculated the Beneficiary’s revenue requirement using our cost allocation software program and reviewed the calculation of revenue requirement including the applications of Part 64, 36, and 69 for reasonableness. In addition, we traced cost study adjustments that were not recorded in the general ledger to supporting documentation and reviewed them for reasonableness.

Detailed Audit Findings

Our performance audit resulted in the following detailed audit findings and recommendations with respect to the Beneficiary's compliance with the Rules. We also included an estimate of the monetary impact of the findings relative to 47 C.F.R. Part 54, Subparts C, D, K, and M, Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B, as well as the Federal Communications Commission's (FCC) Orders governing federal Universal Service Support applicable to the disbursements made from the HCP during the year ended December 31, 2015.

FINDING No.: HC2016BE031-F01: 47 C.F.R. § 36.2(c)(2) - INCORRECT TREATMENT OF SUBSTANTIAL RENT EXPENSE PAID TO AN AFFILIATE

Condition –

The Beneficiary incorrectly included amounts in its cost studies and HCP filings for the following years (see table below) in account 6230, circuit expense, for substantial rent expense paid to an affiliate for the use of interexchange plant assets owned by its affiliate. The Beneficiary should have removed the circuit expense and needed to include the rented interexchange plant and related expenses in its HCP filings in accordance with FCC rules.

Year	Circuit Expense
2010	\$1,481,215
2011	\$2,461,630
2012	\$1,843,004
2013	\$2,906,004
2014	\$2,820,657

Cause –

The processes to prepare, review, and approve the cost studies and HCP filings did not identify the affiliate transaction as substantial rent and the application of the requirements in 47 C.F.R. § 36.2(c)(2).

Effect –

The exception identified above, for the years 2010 – 2014 resulted in a net reduction of plant specific expenses of \$7,895,619, an average annual increase in rate base of \$1,639,885, an increase in depreciation expense of \$3,559,080, and an increase in corporate operations expense of \$1,482,591, which impacted HCLS, ICLS, and LSS disbursements. Specifically, the reduction of circuit expenses and the inclusion of non-loop (i.e. interexchange) imputed rate base in the Beneficiary's HCP filings decreased HCLS, ICLS, and LSS support.

The monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2015, and for the additional years for the 12-month periods ending December 31, 2012, 2013, 2014, and 2016 is estimated to be an overpayment of \$8,251,829 and is summarized by support mechanism by disbursement period as follows:

Support Type	Monetary Effect - 2012	Monetary Effect - 2013	Monetary Effect - 2014	Monetary Effect - 2015	Monetary Effect - 2016	Total Monetary Effect
HCLS	\$715,531	\$1,308,650	\$1,145,785	\$1,332,268	\$1,675,095	\$6,177,329
ICLS	\$171,768	\$307,643	\$332,772	\$300,172	\$482,755	\$1,595,110
LSS	\$155,117	\$324,273	\$0	\$0	\$0	\$479,390

The monetary effect on LSS disbursements exceeds the amount of disbursements received by the Beneficiary during the audit periods due to the impacts of Finding #1 on actual support true-ups which are received in different periods. For example, the final 2010 LSS true-up is included in 2012 disbursements. We assessed what each true-up should have been in the respective disbursement year, based on the application of Finding #1. The following table shows the timing of final true-ups for each LSS filing and the impacts on each support year based on a comparison of final LSS amounts reported by the Beneficiary to LSS recomputed for the effects of Finding #1:

Payment Description	LSS Payment Year			
	2010	2011	Audit scope	
			2012	2013
2010 LSS based on forecast	507,672			(1)
2011 LSS based on forecast		248,940		(2)
2012 LSS support (Based on 2011 forecast per 2011 Transformation order) - Amount received January through June			124,470	(3)
2010 LSS forecast true-up			(70,536)	(1)
2011 LSS forecast true-up				224,172 (2)
2012 LSS forecast true-up				112,086 (3)
Total	507,672	248,940	53,934	336,258
Impact from Finding HC2016BE031-F01:				
Monetary effect on 2012 disbursements from 2010 LSS true-up revised for Part 36.2(c)2 application			(155,117)	
Monetary effect on 2013 disbursements from 2011 LSS true-up revised for Part 36.2(c)2 application				(216,182)
Monetary effect on 2013 disbursements from 2012 LSS true-up revised for Part 36.2(c)2 application				(108,091)
Monetary effect on LSS disbursements under audit scope	-	-	(155,117)	(324,273)
Final 2010 LSS as filed (1) 437,138				
Revised for Part 36.2(c)2 application			282,021	
Monetary effect on 2012 disbursement			(155,117)	
Final 2011 LSS as filed (2) 473,112				
Revised for Part 36.2(c)2 application			256,930	
Monetary effect on 2013 disbursement			(216,182)	
Final 2012 LSS (one-half of 2011 - automatically filed) (3) 236,556				
Revised for Part 36.2(c)2 application			128,465	
Monetary effect on 2013 disbursement			(108,091)	

Recommendation -

The Beneficiary should implement policies and procedures to ensure it has an adequate system in place for preparing, reviewing, and approving data reported in its HCP filings to ensure compliance with applicable FCC rules.

Beneficiary Response –

We disagree with this finding. The auditor’s premise is incorrect with respect to both the facts and the law and has led to an erroneous finding.

The auditor’s finding is based on the premise that this transaction involves Cross’s “use of interexchange plant assets owned by its affiliate” and, therefore, the “rented interexchange plant” should have been included in its HCP filings.

This is incorrect. The transaction does not involve the “use of interexchange plant assets” owned by an affiliate through a lease arrangement. Rather, Cross purchases transport services provided by the DS1 circuits owned and operated by its affiliate, MBO Video, and has no right to access, use, or integrate MBO Video’s facilities through a lease arrangement.

A review of the contracts that govern the transaction confirms that this is a purchase of services rather than the conveyance of a right to use MBO Video’s plant assets through a lease. In 1998, when Cross first began ordering DS1 services from MBO Video, the parties entered into a “General Contract for Services,” containing, among other terms, a “description of services,” a right for Cross to increase or decrease the amount of services it purchases, and MBO Video’s warranty on its provision of these services. See Attachment A. These terms are inconsistent with the auditor’s premise that Cross uses the plant assets of MBO Video under a lease arrangement.

Contrast the General Contract for Services with the “Equipment Lease” simultaneously entered into by Cross and MBO Video to govern a separate transaction that does involve the conveyance of a right to use assets. See Attachment B. The Equipment Lease establishes the conditions under which the lessee could use the leased facilities. For example, the “equipment may only be used and operated in a careful and proper manner,” the lessee’s “use must comply with all laws, ordinances, and regulations relating to the possession, use, or maintenance of the equipment,” the lessee “shall maintain the equipment in good repair and operating condition,” and the lessee “shall not assign or sublet any interest in this Lease or the equipment or permit the equipment to be used by anyone” other than lessee or its employees. (Emphasis added.)

Further, the lessor retains title to the equipment, and the lessee must return possession of the equipment to the lessor at the end of the lease term. These are terms and conditions commonly used in the industry when conveying the right to use assets. Further, these terms and conditions are not present in the General Contract for Services that governs Cross’s purchase of DS1 services from MBO Video.

In 2008, the parties updated the terms governing Cross’s purchase of DS1 services, entering into MBO’s then-current form “MBO Master Service Agreement” (“MSA”). See Attachment C. The MSA replaced the 1998 General Contract for Services. (See Section 8.28 of the MSA). It did not replace the Equipment Lease which continues to govern the leased assets. The terms of the MSA further emphasize that the transaction involves Cross’s purchase of services, and not a conveyance of a right to use MBO’s assets through a lease arrangement.

For example, Section 1.1, Table A lists the services available to Cross, including Private Line Service. As understood in the telecom industry, private line service is a category that includes DS1 services. (See, for example, the FCC's Business Data Services Report and Order released April 28, 2017, which refers to DS1s as services throughout.)

As another example, Section 8.8 provides that the MSA "shall not, and shall not be deemed to, convey to [Cross] title of any kind to any MBO owned or leased transmission facilities, digital encoders/decoders, telephone lines, microwave facilities or other facilities utilized in connection with the Services." Thus, MBO Video specifically does not convey leasehold title in its facilities to Cross in this transaction.

Further, as set forth in the attached legal memorandum prepared by our outside communications counsel, the FCC's Rules, GAAP, the Internal Revenue Code, and even international accounting standards, all lead to the conclusion that Cross's arrangement with MBO is a purchase of services and not a lease. See Attachment D.

In summary, a review of the appropriate evidence and the law refutes the auditor's incorrect premise. Cross purchases services from MBO Video and does not rent the "use of interexchange plant assets." Accordingly, Cross correctly accounted for this transaction, resulting in a \$-0- effect on disbursements.

We request that the auditor reassess Finding HC2016BE031-F01 in light of both the facts and the law and find that there is a \$-0- effect on disbursements.

Beneficiary Additional Response -

Cross disagrees with the auditor's response in Audit Finding No. 1. As Cross had explained, and as further confirmed in the supporting memorandum that was submitted with Cross' response, Cross purchased DS1 transport services, not DS1 facilities from its affiliate MBO Video, LLC ("MBO"). Cross' purchase of transport services from MBO is not the same as the sale and lease-back arrangement in the Moultrie case and reliance on that decision is inappropriate. Moreover during a 2009 High Cost program ("HCP") audit, the Universal Service Administrative Company ("USAC") reviewed Cross' reporting of DS1 transport services from MBO, identical to the services reviewed in this audit, and neither the auditor KPMG nor USAC expressed any objection, either explicit or implicit, to Cross' reporting methodology for purposes of receiving HCP support. Since 2009, and in reasonable reliance on USAC's silence, reasonably interpreted as a tacit approval, regarding Cross' reporting method, Cross continued to use the same methodology when reporting expenses for subsequent identical services, including those during the 2010-2014 time period covered by this audit. This audit finding effects a contrary and unanticipated reversal of USAC's position regarding Cross' expense reporting. The audit finding should be rejected and, if it is not, this new affiliate reporting guidance should apply prospectively only as any retroactive application will cause manifest injustice to Cross. Most importantly, in no event should Cross be required to refund any HCP support distributed to Cross during the time period covered by the audit.

Cross' DS1 transport service Master Service Agreement with MBO qualifies as a contract for service, not a lease, under Internal Revenue Service and International Accounting Standards Board Criteria

The memorandum, prepared by the Law Office of Bennet & Bennet, PLLC (the "Bennet Memo") and included with Cross' October 20, 2017 response to Audit Finding No. 1, analyzed Cross' Master Service Agreement ("MSA")¹ with MBO (the "Cross/MBO MSA") under the criteria of the Internal Revenue Code ("IRC") and International Accounting Standards Board ("IASB") criteria for distinguishing a contract for services from a contract for a lease. The Bennet Memo provided a detailed analysis and concluded that Cross/MBO MSA would be deemed a contract for services under the IRC and IASB standards.

The Bennet Memo details the Section 7701 IRC criteria governing when a service contract must be treated as a lease and the Cross/MBO MSA does not meet any of the IRC criteria for classification as a lease agreement.² IRC Sec. 7701 considers, among other factors, whether the service recipient "controls the property" or "has a significant or possessor interest in the property." The IRC criteria also consider if the service provider "does not bear any risk of substantially diminished receipts"³ or "does not use the property concurrently to provide significant services to entities unrelated to the service recipient."⁴ The Bennet Memo demonstrated that the Cross/MBO MSA neither permitted Cross physical or other control of MBO's DS1 circuits nor granted Cross a possessory interest in MBO's DS1 circuits.⁵ Moreover, the Bennet Memo confirmed that MBO retained both the risk of loss and damages on the DS1 facilities and the right to use its facilities to provide - and actually did provide - services to other customers.⁶ Particularly relevant here was the Bennet Memo's discussion of a 2011 Internal Revenue Service (IRS) revenue ruling, in which the IRS considered three hypothetical telecommunications service scenarios involving a carrier providing dedicated circuits to a customer and concluded each involved a sale of service, not a lease.⁷ In each hypothetical, the carrier retained control and ownership of the facilities and the right to decide how to route the traffic.⁸ Notably, the IRS classified the arrangements as sales of service even where an arrangement included the lease of equipment to the customer.⁹ Cross' purchase of DS1 transport services from MBO is not materially different from the scenarios considered by the IRS, and, consequently, it is reasonable to conclude that the IRS would deem Cross' service transaction with

¹ MBO Master Service Agreement attached hereto Attachment 1.

² *Bennet Memo at 1-2*, attached hereto as Attachment 2.

³ *Bennet Memo at 1-2*.

⁴ *Bennet Memo at 2*.

⁵ *Bennet Memo at 2*.

⁶ *Bennet Memo at 2*.

⁷ *Bennet Memo at 2-3*.

⁸ *Bennet Memo at 2-3*.

⁹ *Bennet Memo at 2-3*.

MBO to involve a sale of a service and not a lease of a facility.

There is little reason to doubt that the Cross/MBO MSA similarly would be considered to be for a sale of services, and not a lease, under the IASB's International Financial Reporting Standard 16 ("IFRS 16"). As explained in the Bennet Memo, IFRS 16 classifies a contract is a lease if it "conveys the right to control the use of an identified asset for a period of time in exchange for consideration."¹⁰ Under IFRS 16, a customer is granted "control" when the customer has the right to direct the asset's intended use and obtains substantially all of the economic benefit of that use.¹¹ Moreover, for the capacity of an asset to be an "identified asset", the capacity portion must be physically distinct and represent "substantially all the capacity of the asset."¹² The Cross/MBO MSA involves neither an identified asset nor grants Cross control of MBO's DS1 circuits. Moreover, the DS1 capacity provided to Cross is only a portion of a larger network that is also used to serve other customers and therefore is not an identified asset. Consequently, the Cross/MBO MSA would be to a contract for services, and not a lease under IASB criteria.

USAC previously reviewed Cross' purchase of MBO DS1 transport service as well as Cross' HCP reporting of the service expenses and USAC implicitly approved Cross' reporting methodology

In 2009, KPMG, on behalf of USAC, conducted an Improper Payment Information Act performance audit of Cross' participation in the High Cost Program (the "2009 Audit").¹³ As part of that audit, KPMG reviewed the DS1 transport services Cross purchased from MBO and related expense reporting to assess Cross' compliance with the HCP support rules.¹⁴ Prior to purchasing DS1 transport service from MBO, Cross had purchased DS1 transport service from Southwestern Bell Telephone ("SWBT") pursuant to SWBT's tariff.¹⁵ Cross subsequently began purchasing DS1 transport service from MBO.¹⁶ The DS1 transport services were not the "use of interexchange plant assets" and, accordingly, Cross reported them as service expenses.¹⁷ After a thorough audit, KPMG's only finding referencing the affiliate DS1 transport service purchase did not identify or suggest that Cross' expense reporting methodology was inappropriate.¹⁸ Rather the finding identified only a minor miscount in the volume of transport services Cross purchased and noted that, absent the error,

¹⁰ *Bennet Memo at 3.*

¹¹ *Bennet Memo at 3.*

¹² *Bennet Memo at 3.*

¹³ *See Declaration of V. David Miller II in Support of Cross Telephone Company L.L.C., ¶ 6, ("Miller Declaration") attached hereto as Attachment 3.*

¹⁴ *Miller Declaration, ¶ 6.*

¹⁵ *Miller Declaration, ¶ 4.*

¹⁶ *Miller Declaration, ¶ 4.*

¹⁷ *Miller Declaration, ¶ 5.*

¹⁸ *Miller Declaration, ¶ 6.*

Cross actually would have been eligible for more HCP support than it had received.¹⁹ USAC's Management Response to KPMG's audit report similarly did not object to Cross' methodology for reporting its DS1 transport service expenses.²⁰

The DS1 transport services reviewed in the current audit are identical to those reviewed in the 2009 Audit.²¹ During the 2010-2014 time period covered by this audit, Cross continued to purchase its DS1 transport service from MBO.²² The DS1 transport service expense for 2010-2014 constitutes a similar percentage of Cross' total expenses as did the transport service expense reviewed in the 2009 Audit.²³ Cross reported its DS1 transport service expenses in 2010-2014 using the same methodology that it used during the 2009 Audit.²⁴ The one significant change from the 2009 Audit is that the DS1 transport services are provided pursuant to a revised MSA that establishes, even more definitively, that Cross is purchasing a service and is not leasing MBO's facilities.²⁵ Consequently, the current audit's reversal of KPMG's and USAC's tacit approval of Cross' reporting methodology for identical service arrangements reviewed during the 2009 Audit is both confusing and unexpected.

Moreover, the auditor's reference on the Federal Communications Commission's ("Commission") decision in the case of *Moultrie Independent Telephone Company* is inapposite.²⁶ The *Moultrie* case is distinguishable on its face as it involved an unambiguous sale and lease-back of assets from Moultrie's affiliate.²⁷ Moultrie transferred its assets, including "motor vehicles, land, and buildings, and equipment" to its affiliate and leased the assets back from its affiliate.²⁸ In fact, Moultrie acknowledged that it had structured the arrangement with its affiliate in this manner with the express goal of "optimiz[ing] its recovery under the [universal service fund] and to maximize tax benefits."²⁹ Consequently, it is not surprising that the Commission was able to find fault with Moultrie's transaction and reporting. However, Cross' operations are clearly different from those at issue in *Moultrie*. Most importantly, as detailed *supra*, Cross is purchasing DS1 transport service from MBO. It is not leasing or renting "interexchange plant assets." Cross' service arrangement with MBO

¹⁹ *Miller Declaration*, ¶ 6.

²⁰ *Miller Declaration*, ¶ 6.

²¹ *Miller Declaration*, ¶ 7.

²² *Miller Declaration*, ¶¶ 4, 7.

²³ *Miller Declaration*, ¶ 7.

²⁴ *Miller Declaration*, ¶ 8.

²⁵ *Miller Declaration*, ¶ 5. See also Attachment 1.

²⁶ *Moultrie Independent Telephone Company*, 16 FCC Rcd 18242 (2001) ("*Moultrie*").

²⁷ *Moultrie*, ¶ 4.

²⁸ *Moultrie*, ¶ 4.

²⁹ *Moultrie*, ¶ 14.

did not involve the sale of assets to an affiliate and the subsequent lease-back of those assets.³⁰ In fact, as noted *supra*, before it began purchasing transport service from MBO, Cross previously purchased transport service from SWBT.³¹ Consequently, Cross' purchase of DS1 transport from MBO did not involve any manipulation of Cross' costs by eliminating its assets and incurring new expenses. Moreover, KPMG and USAC reviewed Cross' services and reporting and have not expressed any objection.³² For these reasons, Cross' service scenario is distinguishable from *Moultrie* and that decision should not be relied upon in this audit.

Cross reasonably relied on USAC's tacit approval, in the 2009 Audit, of Cross' reporting methodology and any reversal of USAC's position must be applied prospectively only to avoid manifest injustice to Cross

Cross reasonably used the same reporting methodology, that KPMG and USAC had tacitly approved in the 2009 Audit, to report Cross' identical service expenses during 2010-2014. The audit finding's unexpected reversal of USAC's position on Cross' reporting is unfounded and should be rejected. A reversal of USAC's prior tacit approval, on which Cross had reasonably relied, to its detriment, would be manifestly unjust and, if adopted, such change must not be applied retroactively; rather if applied at all, the change must be applied on a prospective basis only. Regardless, under no circumstance should Cross be required to return any previously-disbursed HCP support.

Among other responsibilities, USAC is tasked with assessing a provider's compliance with the Commission's universal service fund rules.³³ Consequently, it is reasonable, and not unexpected, that a provider would rely on a USAC finding, whether explicit or tacit, by USAC's silence, that the provider is compliant with Commission rules. Such reliance is no less reasonable here where, after reviewing the Cross/MBO DS1 transport service arrangements and Cross' related expense reporting in the 2009 Audit, neither KPMG nor USAC identified any noncompliance with the Commission's HCP reporting rules other than a minor capacity miscount.³⁴ The finding, which noted that, absent that miscount error, Cross would have been eligible for more HCP support, could reasonably be interpreted as an approval of the other aspects of Cross's reporting. Cross, therefore, had no reason to doubt the validity of its affiliate expense reporting framework and reasonably continued to report its DS1 transport service expenses in the same manner as it had done during the 2009 Audit.

Pursuant to applicable judicial and Commission precedent, this audit finding's unexpected reversal of USAC's position, on which Cross reasonably relied for several years, can be applied on a prospective basis only. The Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") has long-recognized a distinction between Commission agency actions where prospective rather than retroactive application is appropriate. Where the agency's decision substitutes "new law for old law

³⁰ *Miller Declaration*, ¶ 5.

³¹ *See also, Miller Declaration*, ¶ 4.

³² *Miller Declaration*, ¶ 6.

³³ USAC is required to operate within the confines of the Commission's rules and is prohibited from making policy or interpreting unclear statutes or rules. *See* 47 C.F.R. §54.702.

³⁴ *Miller Declaration*, ¶ 6.

that was reasonably clear”, prospective-only application is appropriate.³⁵ In contrast, a presumption of retroactive applicability may be appropriate where the agency’s decision merely reflects “new applications of existing law, clarifications, and additions.”³⁶ The Commission similarly has consistently applied rule changes solely on a prospective basis where the changes reflected a “reconsideration of past interpretations and applications of the Act,”³⁷ or were necessary to ensure providers had “certainty regarding their . . . obligations.”³⁸ Prospective application of this audit finding is similarly warranted here where the finding essentially reflects a reconsideration of USAC’s prior application of the Commission’s rules and there is a need to provide Cross with certainty regarding its reporting of affiliate transaction expenses.

Moreover, applying the audit finding on a retroactive basis would result in a manifest injustice to Cross. The D.C. Circuit has explained that manifest injustice results when a party reasonably relies on “reasonably based on settled law” that is contrary to a rule established in a later adjudication.³⁹ The Commission similarly found prospective application of a rule change appropriate where an interpretation of an existing rule did not “rise to the level of . . . ‘new law for old law that was reasonably clear’” but retroactive application would “result in manifest injustice.”⁴⁰ Here, USAC’s tacit approval, in the 2009 Audit, of Cross’ reporting methodology reasonably would be considered “settled law” and the proposed reversal in this audit Finding No. 1 is equivalent to a contrary decision in a later adjudication. Cross reasonably relied on USAC’s review of Cross’ reporting methodology in the 2009 Audit and retroactive application of the new audit change would be manifestly unjust. Specifically, applying the audit’s new interpretation retroactively would expose Cross to having to refund in excess of \$8M to the HCP. HCP support enables carriers to provide much-needed modern voice and broadband communications networks in rural communities where such buildouts would otherwise be cost-prohibitive.⁴¹ Requiring Cross to return its HCP support – support that Cross already has used to serve rural high-cost communities and that Cross cannot possibly recover from its service operations – would effect a manifest injustice.

For the reasons discussed in this response, Cross requests that Finding No. 1 be rejected and, if it is not, that any application of the Finding be on a prospective basis only.

³⁵ *Verizon Tel. Cos. v. FCC*, 269 F.3d 1098, 1109 (D.C. Cir. 2001).

³⁶ *Id.*

³⁷ See e.g., *In re Restoring Internet Freedom*, FCC 17-166, n.792 (2018) (classification change resulting from the Commission’s reconsideration of prior interpretations of the Act applied prospectively only.)

³⁸ See *In re Restoring Internet Freedom*, FCC 17-166, *Id.*, ¶1526. See also, e.g., *In re: Request for Review by InterCall, Inc. of Decision of Universal Service Administrator*, 23 FCC Rcd 10731, ¶123 (2008) (applying a compliance obligation prospectively only where there previously had been “a lack of clarity regarding the direct contribution obligations” applicable to class of service providers.)

³⁹ See, e.g., *Qwest Services Corp. v. FCC*, 509 F.3d 531 (2007).

⁴⁰ *In re: Lifeline and Link Up Reform and Modernization*, 30 FCC Rcd 7818,267, n.536 (2015).

⁴¹ See, e.g., Public Notice, All Universal Service High-Cost Support Recipients are Reminded that Support must be Used for its Intended Purpose, FCC 15-33 (Oct. 19, 2015).

Auditor's Comments –

We recognize that transactions are often labeled with the term lease or rent in the industry when the underlying documents supporting a transaction lend some credence to a service arrangement under legal interpretation or Generally Accepted Accounting Principles. We noted the Beneficiary reported the costs of the facilities purchased in its 2013 financial statement audit report (footnote 11) as lease expense. The Beneficiary also categorized these expenses as rents in its High Cost Loop filings under the rents portion of circuit expense. While we point out that the Beneficiary reported the affiliate transport transactions in its audit report and its High Cost Loop filings as lease expense and rent expense, respectively, we don't believe that is the fundamental condition for the required application of Part 36.2(c)(2). The application of this Rule is required in this instance because of the mechanics of the Part 36 jurisdictional cost allocation process and the resulting impacts to the Part 36 cost study and HCP support results when large interexchange expenses are included in lieu of the related interexchange plant facilities.

We reference the FCC's explanation for why this treatment was enacted for sale and lease-back arrangements with an affiliate:

11. The reason for this specific Part 36 treatment is that, when a substantial amount of investment is involved, the jurisdictional allocation of the lease payment and the combined separations results would be skewed (i.e., the overall interstate allocations may be artificially higher or lower), if the assets were not included in the appropriate separations categories and jurisdictionally allocated based on the rules for the investment-type involved. This occurs because the Part 36 system is premised upon incumbent local exchange carriers owning the majority of their operational assets. Like other utilities, the local exchange telephone industry is, for the most part, characterized as an industry with large, fixed, capital investments that represent a high percentage of total costs. As such, the Part 36 process of jurisdictional cost allocation is predicated on the recognition that incumbent telephone companies will experience large amounts of capital investment cost.

12. Under the Commission's Part 36 rules, each of a carrier's basic components of plant, such as Central Office Equipment (COE) or Cable and Wire Facilities (C&WF), is allocated (i.e., separated) between the intrastate and interstate jurisdictions based either on a fixed allocation or results of studies made on the usage of the plant. Once separated, these basic plant costs provide a foundation upon which most other plant, reserve, and expense accounts are allocated between the jurisdictions. If a company were to sell and lease back one of these "foundation blocks" of plant, and were allowed to exclude the sold investment from its cost study, but include the lease payments as an expense, distortions to the separations results would occur. This is because the annual lease payment (which acts as a substitute for the "sold" investment) would be jurisdictionally allocated based on some or all of the remaining basic components of plant, whose usage would not be representative of the plant leased. This would, in turn, alter the separations results between jurisdictions in a manner not anticipated by the Part 36 rules. As an example of this distortion, a carrier might sell large amounts of

plant with a low interstate allocation (e.g., 25%) and lease it back.

The lease payments and other costs that are allocated based on the Total Plant in Service, total COE, or total C&WF will receive an artificially higher allocation to the interstate jurisdiction, due to the higher interstate allocation of the remaining COE and C&WF interexchange plant costs.

13. The distortions caused to the company's separations results by excluding non-loop related investment from its cost study would, as a consequence, also extend to its high-cost loop support. The Subpart F high-cost loop support algorithm uses factors derived from the ratio of loop-related investment to total investment. If an incumbent carrier were to sell large portions of its non-loop related plant to an affiliate, and then lease back those assets and include the lease payment as an expense, the carrier's cost study would be skewed to decrease its assets, and increase its operational expenses, thus resulting in a higher per-loop cost. The higher per loop costs result because of the relationship between loop-related investment and total investment. When virtually all of the non-loop related investment is removed from the calculation, the cost allocation factors are significantly altered. Because the categories used to determine high-cost loop support pursuant to Subpart F of part 36 are based upon the categorization rules set forth in other sections of Part 36, it is important for incumbent LECs to ensure that their high-cost loop support submissions to NECA conform with all other sections of Part 36, including section 36.2(c)(2).⁴²

We recognize the transaction in Finding #1 is not necessarily a sale and lease-back of interexchange plant. However, we believe the same principles discussed in the *Moultrie Order* apply to the Beneficiary. The Beneficiary incurred substantial interexchange expenses, and without associated or representative interexchange plant included in its cost studies, the interexchange expenses were improperly assigned to jurisdictions and Part 69 access elements based on the Beneficiary's existing plant categories, which is largely loop or subscriber plant in nature. We believe this results in grossly overstated loop costs recovered from HCLS and ICLS and grossly understates interexchange costs recovered from LSS and CAF.

Further, Part 36.2(c) sets two conditional requirements for its application by referencing 1) affiliate related and 2) substantial [in nature]. In the case of the transaction identified in Finding #1, the interexchange transport expenses are the result of the Beneficiary's affiliate charges. Therefore, the first condition is met. For the second condition, NECA Cost issue 2.19 Separations Treatment of Operating Lease Expenses and Capital Leases provides clarification on the term substantial. The Cost Issue states:

The term "substantial" cannot be simply defined and quantified. Rather, "substantial" is dependent on the size and nature of the item and the particular circumstances in which it arises. When a lease of property is substantial in nature, the corresponding

⁴² *Moultrie Independent Telephone Company et al.*, CC Docket No. 96-45, Order, 16 FCC Rcd 18242, 18247-48, paras. 11-14 (2001) ("*Moultrie Order*").

jurisdictional allocation of the lease payment and associated separations results of the study area would tend to be skewed or distorted if assets were not included in the appropriate separations category and apportioned based on the prescribed investment allocation methodologies.⁴³

The affiliate transport expense incurred by the Beneficiary is large in relation to its other operating expenses. Specifically, the expense ranged from \$1,481,215 to \$2,906,004, which was approximately 13%-23% of operating expenses included in its cost study filings during the periods under audit. In addition, we assessed the impact on the Beneficiary's Part 36 cost studies and HCP filings and found the results were significantly skewed as a result of including the interexchange expenses in its cost studies in lieu of the associated interexchange plant in its categorization (see monetary effects above). Therefore, we believe the second condition is also met.

Part 36.2(c)(2), as discussed in the *Moultrie Order*, was designed to ensure that costs that could be affected by an affiliate arrangement are evaluated, and if substantial in amount, are subject to restrictions to avoid improper allocation of expenses to separations categories. In the case of expenses associated with property, the expenses should be removed and the related plant should be included in the separations study for category assignment based on separations factors. In the case of Finding #1, the expenses are the DS1 circuit charges and the plant is the interexchange fiber owned by the Beneficiary's affiliate. Considering the substantial nature of the affiliate transaction and resulting improper category assignment of the expenses, our position is unchanged with respect to our finding.

Auditor's Additional Comments –

We have considered the Beneficiary's additional responses and do not believe they provide any new basis to conclude the Beneficiary complied with Part 36.2(c)(2) as prescribed by the FCC, therefore our position is unchanged with respect to this finding.

FINDING No.: HC2016BE031-F02: 47 C.F.R. § 64.901 - LACK OF NONREGULATED ADJUSTMENTS FOR COMMON COSTS

Condition –

The Beneficiary has common costs attributable to both regulated and nonregulated activities and failed to remove the nonregulated portion of the expenses from its HCP filings. Specifically, expenses related to software maintenance, printing, customer billing supplies, advertising, professional services, and health and dental insurance were incurred for both regulated and nonregulated operations. The application of various indirect cost attribution factors resulted in \$91,901 of expenses that should have been excluded from the Beneficiary's HCP filings.

Cause –

⁴³ 2.19 Separations Treatment of Operating Lease Expenses and Capital Leases, NECA Cost Issue at Section 2: Expenses, Issue number 2.19, page 6 of 9 (2007).

The processes to prepare, review, and approve the 2013 cost study did not identify the proper allocation of expenses to nonregulated accounts.

Effect –

The exception identified above resulted in a reduction of regulated operating expenses of \$91,901, which impacted HCLS and ICLS disbursements. The monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2015, is estimated to be overpayment of \$8,587 and is summarized by support mechanism as follows:

Support Type	Monetary Effect
HCLS	\$5,951
ICLS	\$2,636

Recommendation –

The Beneficiary should implement policies and procedures to ensure it has an adequate system in place for preparing, reviewing, and approving data reported in its HCP filings to ensure compliance with applicable FCC rules.

Beneficiary Response –

We concur with this finding. The total operating expense is the sum of six different expense allocations, each of which was either deemed immaterial or overlooked. We will update our policies and procedures for preparing, reviewing, and approving data reported in Cross’s HCP filings to ensure compliance with applicable FCC rules.

FINDING No.: HC2016BE031-F03: 47 C.F.R. § 64.901- INCORRECT NONREGULATED ADJUSTMENTS FOR RATE BASE AND EXPENSES

Condition –

The Beneficiary properly included nonregulated adjustments for general support expenses and general support depreciation expense, but failed to remove the assets and accumulated depreciation. In addition, the Beneficiary’s basis for its nonregulated adjustments were based on book balances from 2012 and should have been based on 2013 balances.

Cause –

The processes to prepare, review, and approve the 2013 cost study did not identify and remove the correct balances.

Effect –

The exception identified above resulted in a decrease in net rate base of \$17,784, a decrease in depreciation expense of \$5,310, and a decrease in plant specific expenses of \$45,551, which impacted HCLS and ICLS disbursements. The monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2015, is estimated to be an overpayment of \$15,780 and is summarized by support mechanism as follows:

Support Type	Monetary Effect
HCLS	\$5,242
ICLS	\$10,538

Recommendation –

The Beneficiary should implement policies and procedures to ensure it has an adequate system in place for preparing, reviewing, and approving data reported in its HCP filings to ensure compliance with applicable FCC rules.

Beneficiary Response –

We concur with this finding. This was an apparent oversight. We will update our policies and procedures for preparing, reviewing, and approving data reported in Cross’s HCP filings to ensure compliance with applicable FCC rules.

FINDING No.: HC2016BE031-F04: 47 C.F.R. § 36.611(h) – UNDERREPORTED LOOPS

Condition –

The number of total loops reported on the Beneficiary’s 2014-1 HCLS filing did not reconcile to the source documentation and were underreported by 3 loops.

Cause –

The process to collect, report, and monitor working loops reported in the 2014-1 HCLS filing did not detect a loop reporting error.

Effect –

The exception identified above resulted in an understatement of total loops, which impacted HCLS disbursements. The monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2015, is estimated to be overpayment of \$2,882 and is summarized by support mechanism as follows:

Support Type	Monetary Effect
HCLS	\$2,882

Recommendation –

The Beneficiary should implement policies and procedures to ensure it has an adequate system in place for collecting, reporting, and monitoring data reported in its HCLS filings.

Beneficiary Response –

We concur with this finding. This was an apparent oversight. We will update our policies and procedures for collecting, reporting, and monitoring data reported in Cross’s HCLS filings.

FINDING No.: HC2016BE031-F05: 47 C.F.R. § 54.320(b) – LACK OF SUPPORTING INVOICE DOCUMENTATION

Condition –

The Beneficiary was unable to provide supporting invoice documentation for two of the 65 individual transactions selected from expense accounts.

Cause –

The Beneficiary has a policy of maintaining original source documents but in these two instances was unable to locate the invoices and also not able to subsequently obtain them from the vendor.

Effect –

The exception identified above resulted in a decrease in corporate operations expense of \$7,696 and a decrease in plant specific expense of \$1,829, which impacted HCLS and ICLS disbursements. The monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2015, is estimated to be overpayment of \$1,680 and is summarized by support mechanism as follows:

Support Type	Monetary Effect
HCLS	\$1,235
ICLS	\$445

Recommendation –

The Beneficiary should implement policies and procedures to ensure it has an adequate system in place for collecting and retaining supporting documentation for expenses reported in its HCP filings.

Beneficiary Response –

We concur with this finding. We were unable to locate the original documentation for these two transactions. We will update our policies and procedures for collecting and retaining supporting documentation reported in Cross’s HCP filings.

FINDING No.: HC2016BE031-F06: 47 C.F.R. § 54.7(a) and 47 C.F.R. § 65.450(a) – DISALLOWED EXPENSES

Condition –

The Beneficiary included \$18,798 of expenses of related to charitable contributions, membership dues, and community event sponsorships in its HCP fillings that are not considered necessary for the provision, maintenance or upgrade of facilities for which supported is intended.

Cause –

The processes to prepare, review, and approve the 2013 cost study did not identify and adjust for the disallowed expenses.

Effect –

The exception identified above resulted in a decrease in corporate operations and charitable contribution expenses of \$18,798, which impacted ICLS disbursements. The monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2015, is estimated to be overpayment of \$3,646 and is summarized by support mechanism as follows:

Support Type	Monetary Effect
ICLS	\$3,646

Recommendation –

The Beneficiary should implement policies and procedures to ensure it has an adequate system in place for preparing, reviewing, and approving data reported in its HCP filings to ensure compliance with applicable FCC rules.

Beneficiary Response –

We concur with this finding. This was an apparent oversight. We will update our policies and procedures for preparing, reviewing, and approving data reported in Cross's HCP filings to ensure compliance with applicable FCC rules.

FINDING No.: HC2016BE031-F07: 47 C.F.R. § 32.6512(b) – CLEARING OF PROVISIONING EXPENSE

Condition –

The Beneficiary did not clear \$59,644 from provisioning expense account 6512 to plant under construction or plant specific expense.

Cause –

The Beneficiary was unaware of the FCC rules governing the clearing of provisioning expense.

Effect –

The exception identified above resulted in a decrease of plant nonspecific expenses of \$59,644 an increase in plant specific expenses of \$18,234, and an increase in rate base of \$39,305, which impacted HCLS and ICLS disbursements. The monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2015, is estimated to be overpayment of \$2,390 and is summarized by support mechanism as follows:

Support Type	Monetary Effect
HCLS	(\$7,859)
ICLS	\$10,249

Recommendation –

The Beneficiary should implement policies and procedures to review its process for clearing plant nonspecific expense accounts periodically to ensure they comply with Part 32 regulations.

Beneficiary Response –

We concur with this finding. This was an apparent oversight. We will update our policies and procedures for clearing plant nonspecific expense accounts periodically to ensure they comply with Part 32 regulations.

**FINDING No.: HC2016BE031-F08: 47 C.F.R. § 32.12(b) and 47 C.F.R. § 54.320(b) –
PAYROLL ALLOCATIONS**

Condition –

The Beneficiary allocated its 2013 payroll and related benefits based on a 2008 time study and were unable to provide documentation to support the time study was still appropriate for 2013 payroll allocations.

Cause –

The preparation, review, and approval processes governing the allocation of payroll data did not include procedures to formally document the Beneficiary's evaluation of the relevance of a 2008 time study for its allocations of 2013 labor and benefits.

Effect –

There is no monetary impact of this finding based on our audit procedures. The use of a time study is an acceptable method for allocating labor and benefits. Although the Beneficiary maintained support for the 2008 time study, there has not been a subsequent time study or documentation the time study used was still valid to support the majority of the 2013 payroll allocations. While there is no monetary impact of this finding, the failure to maintain supporting documentation for the allocation to the Beneficiary's accounts increases the probability for errors and/or omissions in future high cost support filings.

Recommendation –

The Beneficiary should implement policies and procedures to formally document its evaluation of historical time studies used for current period labor and benefit allocations and make updates when duties or activities of employees change.

Beneficiary Response –

We concur with this finding. We reviewed the time study and determined that the percentages were still accurate, but we did not properly document this review. We will update our policies and procedures to ensure proper documentation of our review of and updates to historical time studies.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 36.2(c)(2) (2006)	<p>Property rented to affiliates, if not substantial in amount, is included as used property of the owning company with the associated revenues and expenses treated consistently: Also such property rented from affiliates is not included with the used property of the company making the separations; the rent paid is included in its expenses. If substantial in amount, the following treatment is applied:</p> <p>(1) In the case of property rented to affiliates, the property and related expenses and rent revenues are excluded from the telephone operations of the owning company, and</p> <p>(2) In the case of property rented from affiliates, the property and related expenses are included with, and the rent expenses are excluded from, the telephone operations of the company making the separation.</p>
#2 & #3	47 C.F.R. § 64.901 (a) and (b), (2001)	<p>Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.</p> <p>(2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.</p> <p>(3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy:</p> <p>(i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.</p> <p>(ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.</p> <p>(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.</p>

Finding	Criteria	Description
#4	47 C.F.R. § 36.611(h), (2011)	For universal support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service.
#5	47 C.F.R. § 54.320(b) (2012)	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.
#6	47 C.F.R. § 54.7(a) (2010) 47 C.F.R. § 65.450(a) (2011) ⁴⁴	A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Net income shall consist of all revenues derived from the provision of interstate telecommunications services regulated by this Commission less expenses recognized by the Commission as necessary to the provision of these services. The calculation of expenses entering into the determination of net income shall include the interstate portion of plant specific operations (Accounts 6110-6441), plant nonspecific operations (Accounts 6510-6565), customer operations (Accounts 6610-6623), corporate operations (Accounts 6720-6790), other operating income and expense (Account 7100), and operating taxes (Accounts 7200-7250), except to the extent this Commission specifically provides to the contrary.
#7	47 C.F.R. § 32.6512(b) (2011)	(b) Credits shall be made to this account for amounts transferred to construction and/or Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge.

⁴⁴ Public Notice FCC 15-133 reiterates the prohibition of rate of return carriers from including expenses that are not necessary for the provision, maintenance, or upgrading of facilities and services for which support is intended. *See All Universal Service High-Cost Support Recipients are Reminded that Support Must be Used for its Intended Purpose*, WC Docket No. 10-90 *et al.*, Public Notice, 30 FCC Rcd 11821 (2015).

Finding	Criteria	Description
#8	<p data-bbox="370 235 599 300">47 C.F.R. § 32.12(b) (2010)</p> <p data-bbox="370 436 599 501">47 C.F.R. § 54.320(b) (2012)</p>	<p data-bbox="625 235 1404 401">The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission.</p> <p data-bbox="625 436 1404 697">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.</p>

Summary of Low Income Support Mechanism Beneficiary Audit Reports Released: September 1, 2018 – October 31, 2018

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action *	Entity Disagreement
Millennium 2000, Inc. LI - Attachment A	8	<ul style="list-style-type: none"> <u>Inaccurate Form 497 Reporting</u>: The number of subscribers reported on the FCC Form 497 is not supported by the Beneficiary’s subscriber listing. 	\$1,452	\$1,655	\$1,452	Y
Baraga Telephone Company – MI	4	<ul style="list-style-type: none"> No material findings. ** 	\$5,039	\$1,009	\$1,009	N
Full Service Network LP (PA)	0	<ul style="list-style-type: none"> None. 	\$6,188	\$0	\$0	N
Inland Cellular LLC (ID)	4	<ul style="list-style-type: none"> No material findings. ** 	\$6,863	\$ 3,993	\$1,894	N
Total	16		\$19,542	\$6,657	\$4,355	

* The “Monetary Effect” amount may exceed the “USAC Management Recovery Action” amount if there are findings that do not warrant a recommended recovery or there are multiple findings within an audit that have overlapping exceptions between them.

** The audit findings are set forth in the Audit Report. Based on the dollar recovery amount, the findings are not material.



Millennium 2000, Inc.

Limited Scope Audit on Compliance with the Federal Universal Service Fund
Lifeline Support Mechanism Rules
USAC Audit No. LI2017BE027

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EXECUTIVE SUMMARY

September 26, 2018

Mr. Paris Haynes
Millennium 2000, Inc.
5324 N Lovers Lane Rd
Milwaukee, WI, 53225

Dear Mr. Haynes:

DP George & Company, LLC (DPG) audited the compliance of Millennium 2000, Inc. (Beneficiary), study area code 339031, using regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. DPG's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope audit.

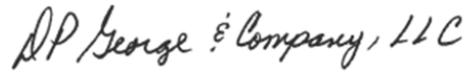
DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable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

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

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

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

Sincerely,

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

DP George & Company, LLC
Alexandria, Virginia

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Recovery ¹ (B)	Recommended Recovery (A)-(B)
Finding #1: 47 C.F.R. § 54.407(a), (e) – Inaccurate Form 497 Reporting. The number of subscribers reported on the Form 497 is not supported by the Beneficiary’s subscriber listing.	\$1,110	\$0	\$1,110
Finding #2: 47 C.F.R. § 54.417(a) – Lack of Documentation: Pass Through Documentation. The Beneficiary did not provide documentation to demonstrate pass through of program support to subscribers claimed in the audit period.	\$231	\$0	\$231
Finding #3: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification and Recertification Documentation. The Beneficiary did not provide documentation to demonstrate certification or recertification of subscribers claimed in the audit period.	\$194	\$194	\$0
Finding #4: 47 C.F.R. § 54.417(a) – Lack of Documentation: One-Per-Household Documentation. The Beneficiary did not provide documentation to demonstrate one-per household certification for subscribers identified at the same address.	\$120	\$9	\$111
Finding #5: 47 C.F.R. § 54.416(b) – Failure to File Form 555. The Beneficiary did not file the required January 2016 Form 555.	\$0	\$0	\$0
Finding #6: 47 C.F.R. § 54.404(b) – NLAD and Form 497 Variance. The Beneficiary failed to remove subscribers from NLAD within the required time frame.	\$0	\$0	\$0
Finding #7: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Requests. The recertification request notification did not specify that the subscriber must respond within 30 days.	\$0	\$0	\$0

¹ If an auditee is successful on appeal, 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.

Audit Results	Monetary Effect (A)	Overlapping Recovery ¹ (B)	Recommended Recovery (A)-(B)
Finding #8: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification. The non-usage notification sent to subscribers did not specify that the subscriber must cure non-usage within 30 days.	\$0	\$0	\$0
Total Net Monetary Effect	\$1,655	\$203	\$1,452

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 April 2016 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	477	\$4,412

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

DPG performed the following procedures:

A. Form 497

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

B. Certification and Recertification Process

DPG obtained an understanding of the Beneficiary's enrollment, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also obtained and examined certification and/or recertification documentation for 25 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Subscriber Listing

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

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

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 25 subscribers.

E. Independent Economic Households

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

F. Form 555

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

G. Non-Usage Process

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.407(a), (e) – Inaccurate Form 497 Reporting

CONDITION

DPG examined the Beneficiary's subscriber listing to determine whether the Beneficiary reported the correct number of subscribers on the Form 497. DPG noted that the subscriber listing provided by the Beneficiary listed 357 subscribers while the number of subscribers claimed on the Form 497 for April 2016 was 477, a variance of 120 subscribers. DPG noted further that the number of eligible subscribers listed in NLAD as of the audit period was 401.

The Beneficiary must report the correct number of subscribers on the Form 497 based on adequate documentation that must be retained to support the number of subscribers reported.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct number of subscribers on the Form 497.

EFFECT

Support Type	Monetary Effect (A)	Overlapping Recovery (B)	Recommended Recovery (A) – (B)
Lifeline	\$1,110	0	\$1,110

DPG calculated the monetary effect by multiplying the number of affected subscribers (120) by the non-tribal support amount requested on the April 2016 Form 497 (\$9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. We further recommend that the Beneficiary implement an adequate system to collect, track, and report the correct number of subscribers on the Form 497.

BENEFICIARY RESPONSE

Due to a company restructure and transition in management, Millennium 2000 Inc. was not able to obtain and retain all customer records in accordance to USAC requirements. Although we comply with the cause behind the findings we are uncertain of the monetary effect recommended. Findings show that although we were only able to provide data for 357 of the 477 subscribers claimed on our April 2016 Form 497, our eligible customer base was 401 as of the audit period and some of these records were provided to usac internal audit divisions at a previous time in a separate and unrelated request. Those records still remain with this department.

DPG RESPONSE

DPG includes the NLAD count of 401 subscribers in the Condition as secondary evidence that the count of 477 subscribers claimed on the Audit period Form 497 is not accurate. Our primary support for the number of subscribers claimed by the Beneficiary is the subscriber listing provided from the Beneficiary's records. The rules

at 47 C.F.R. § 54.407(e) indicate that the Beneficiary must keep accurate records of the revenues it forgoes in providing Lifeline services.

DPG is aware that the Beneficiary mailed many of its original records to USAC in support of a previous audit. DPG reviewed the original documentation held by USAC to determine if documentation for any of the subscribers selected for our testing was available. DPG was able to locate four of the requested certification/recertification documents in the documentation held by USAC which reduced the monetary effect associated with Finding #3 below. However, the documentation held by USAC did not contain additional support to explain the variance of 120 subscribers identified in the Condition section above. For these reasons, DPG’s position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 54.417(a) – Lack of Documentation: Pass Through Documentation

CONDITION

DPG requested documentation to demonstrate the pass through of Lifeline program support for 25 subscribers. The documentation provided did not provide sufficient detail to determine the period for which the report applied or the number of minutes passed through to the subscribers. Without sufficient pass through documentation for the subscribers selected, DPG cannot conclude that these subscribers received the program support requested by the Beneficiary on the April 2016 Form 497.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of subscriber pass through documentation.

EFFECT

Support Type	Monetary Effect (A)	Overlapping Recovery (B)	Recommended Recovery (A) – (B)
Lifeline	\$231	0	\$231

DPG calculated the monetary effect by multiplying the number of subscribers for whom documentation was not provided (25) by the Lifeline Program support amount requested on the April 2016 Form 497 (\$9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. DPG also recommends that the Beneficiary implement policies and procedures to establish a documentation retention process that allows it to respond fully to audit documentation requests in compliance with the Rules.

BENEFICIARY RESPONSE

We have identified the cause of these findings and comply with the results. New management, infrastructures and record-keeping rules have been implemented to insure accurate and efficient document retention moving forward.

Finding #3: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification and Recertification Documentation

CONDITION

DPG requested certification documentation for a sample of 24 subscribers and recertification documentation for a sample of 1 subscriber to determine whether subscribers were eligible to receive support. The Beneficiary did not provide documentation for 21 of the 25 subscribers. Without subscriber certification or recertification forms for these subscribers, DPG cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of subscriber certification and recertification documentation.

EFFECT

Support Type	Monetary Effect (A)	Overlapping Recovery (B)	Recommended Recovery (A) – (B)
Lifeline	\$194	\$194 ²	\$0

DPG calculated the monetary effect by multiplying the number of subscribers for whom documentation was not provided (21) by the Lifeline Program support amount requested on the April 2016 Form 497 (\$9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. DPG also recommends that the Beneficiary implement policies and procedures to establish a documentation retention process that allows it to respond fully to audit documentation requests in compliance with the Rules.

BENEFICIARY RESPONSE

We have identified the cause of these findings and comply with the results. New management, infrastructures and record-keeping rules have been implemented to insure accurate and efficient document retention moving forward.

² \$194 of the monetary effect for this finding overlaps with the monetary effect of Finding #2.

Finding #4: 47 C.F.R. § 54.417(a) – Lack of Documentation: One-Per-Household Documentation

CONDITION

DPG requested one-per-household documentation for all four of the addresses identified as multiple household addresses on the April 2016 subscriber listing. The Beneficiary did not provide documentation for any of the four addresses. Without one-per household documentation for the subscribers at these addresses, DPG cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of documentation to demonstrate subscribers made the required one-per-household certifications.

EFFECT

Support Type	Monetary Effect (A)	Overlapping Recovery (B)	Recommended Recovery (A) – (B)
Lifeline	\$120	\$9 ³	\$111

DPG calculated the monetary effect by multiplying the number of subscribers for whom documentation was not provided (13) by the Lifeline Program support amount requested on the April 2016 Form 497 (\$9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. DPG also recommends that the Beneficiary implement policies and procedures to establish a documentation retention process that allows it to respond fully to audit documentation requests in compliance with the Rules.

BENEFICIARY RESPONSE

We have identified the cause of these findings and comply with the results. New management, infrastructures and record-keeping rules have been implemented to insure accurate and efficient document retention moving forward.

Finding #5: 47 C.F.R. § 54.416(b) – Failure to File Form 555

CONDITION

The Beneficiary did not file the Form 555 that was due in January 2016. The Beneficiary was required to report its 2015 recertification results, including the Beneficiary's certifications that are required by 47 C.F.R. § 54.416, to USAC and the FCC via the Form 555.

³ \$9 of the monetary effect for this finding overlaps with the monetary effect of Finding #2.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the Form 555 that must be filed with USAC and the FCC.

EFFECT

DPG is unable to calculate a monetary effect for this finding, as it does not correspond to a specific amount claimed on the Form 497.

RECOMMENDATION

DPG recommends that the Beneficiary implement an adequate system to capture and report the results of its annual recertification process on the required Form 555 submission, and maintain adequate documentation to demonstrate compliance with the Rules.

BENEFICIARY RESPONSE

We comply with these findings however, the cause of these results were due to previous management mishandlings and do not reflect the current directors and officers knowledge of USAC requirements.

Finding #6: 47 C.F.R. § 54.404(b) – NLAD and Form 497 Variance

CONDITION

DPG examined the Beneficiary's subscriber data in the National Lifeline Accountability Database (NLAD) and on the audit period subscriber listing to identify subscribers reflected in NLAD and not claimed on the April 2016 Form 497. DPG identified a total of 44 subscribers. From these subscribers, DPG identified 5 customers who were previously scheduled for de-enrollment by the Beneficiary but were listed in NLAD as of the audit period. The Beneficiary indicated that the five subscribers should have been de-enrolled. The Beneficiary indicated that the remaining 39 subscribers were not claimed because at the time, the company was undergoing a management restructure and was working with USAC to identify an accurate customer base. The Beneficiary is required to submit subscriber de-enrollment information to NLAD within one business day of de-enrollment.

CAUSE

The Beneficiary did not have an adequate system in place for transmitting and/or updating its existing subscriber data in NLAD.

EFFECT

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

RECOMMENDATION

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

BENEFICIARY RESPONSE

We have identified the cause of these findings and comply with the results. New trainings, developments and how to guides have been reviewed by team members. new data implementation systems have been installed to assist with NLAD accuracy.

Finding #7: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Requests

CONDITION

DPG examined the Beneficiary's recertification process used to report information on the January 2016 Form 555. We noted that the Beneficiary's recertification requests were sent via letter using a process separate from the subscriber's bill. However, the notification letter used provided the subscriber 60 days instead of the 30 days specified by the rules in which to respond. The Beneficiary must inform subscribers using clear, easily understood language, that failure to respond to the recertification request within the period specified by the rules will trigger de-enrollment from the Lifeline Program.

CAUSE

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

EFFECT

DPG is unable to calculate the monetary effect for this finding, as it is not known how many subscribers did not respond in the appropriate time period as a result of the 60-day response deadline being communicated instead of 30 days.

RECOMMENDATION

DPG recommends that the Beneficiary ensure that the language in its recertification request aligns to the time period specified by the rules in which subscribers must respond or they will be de-enrolled. DPG notes that since the audit period, the time period allowed for recertification purposes has been revised to 60 days.

BENEFICIARY RESPONSE

We comply with these findings however, the cause of these results were due to previous management mishandlings and do not reflect the current directors and officers knowledge of USAC requirements.

Finding #8: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification

CONDITION

DPG examined the Beneficiary's process for tracking and de-enrolling subscribers for the non-usage results reported on the January 2016 Form 555. The non-usage notification messages sent to subscribers did not clearly indicate that the subscriber had 30 days following the date of the notice to respond or use the phone. The Beneficiary must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage.

CAUSE

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

EFFECT

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

RECOMMENDATION

DPG recommends that the Beneficiary revise the language in its non-usage notifications to clearly identify the number of days the subscriber has from the date of notification to cure non-usage and avoid service termination.

BENEFICIARY RESPONSE

We comply with these findings and recommendation.

CRITERIA

	Criteria	Description
#1, #2, #3, #4	47 C.F.R. § 54.407(a), (e) (2015)	<p>“(a) Universal service support for providing Lifeline 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.</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>
#2, #3, #4, #5	47 C.F.R. § 54.417(a) (2015)	“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.”
#2	47 C.F.R. § 54.403(a)(1) (2015)	“ <i>Basic support amount.</i> Federal Lifeline support in the amount of \$9.25 per month will be made available to an eligible telecommunications carrier providing Lifeline service to a qualifying low-income consumer, if that carrier certifies to the Administrator that it will pass through the full amount of support to the qualifying low-income consumer and that it has received any non-federal regulatory approvals necessary to implement the rate reduction.”
#3	47 C.F.R. § 54.410(b)(1)(i) (2015)	“ <i>Initial income-based eligibility determination.</i> (1) Except where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline or using the income-based eligibility criteria provided for in §54.409(a)(1) or (a)(3) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section....”
#3	47 C.F.R. § 54.410(c)(1)(i) (2015)	“ <i>Initial program-based eligibility determination.</i> (1) Except in states where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in §54.409(a)(2), (a)(3) or (b), an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section....”
#3	47 C.F.R. § 54.410(f)(1), (2)(iii) (2015)	“ <i>Annual eligibility re-certification process.</i> All eligible telecommunications carriers must annually re-certify all subscribers except for subscribers in states where a state Lifeline administrator or other state agency is responsible for re-certification of subscribers’ Lifeline eligibility. In order to re-certify a subscriber’s eligibility, an eligible telecommunications carrier must confirm a subscriber’s current eligibility to receive Lifeline by: ... Obtaining a signed certification from the subscriber that meets the certification requirements in paragraph

	Criteria	Description
		(d) of this section.”
#4	47 C.F.R. § 54.404(b)(3) (2015)	“If the [National Lifeline Accountability] Database indicates that another individual at the prospective subscriber’s residential address is currently receiving a Lifeline service, the eligible telecommunications carrier must not seek and will not receive Lifeline reimbursement for providing service to that prospective subscriber, unless the prospective subscriber has certified, pursuant to [47 C.F.R.] §54.410(d) that to the best of his or her knowledge, no one in his or her household is already receiving a Lifeline service.”
#4	47 C.F.R. § 54.409(c) (2015)	“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.”
#4	<i>In the Matter of Lifeline and Link Up Reform and Modernization, Lifeline and Link Up, Federal-State Joint Board on Universal Service, Advancing Broadband Availability Through Digital Literacy Training</i> , WC Docket No. 11-42 et. al., Report and Order and Further Notice of Proposed Rulemaking, FCC 12-11, 27 FCC Rcd 6656, 6691, para. 78 (2012) (<i>Lifeline Reform Order</i>)	“As explained below in the database section, upon receiving an application for Lifeline support, all ETCs must check the duplicates database to determine whether an individual at the applicant’s residential address is currently receiving Lifeline-supported service. The ETC must also search its own internal records to ensure that it does not already provide Lifeline-supported service to someone at that residential address. If nobody at the residential address is currently receiving Lifeline-supported service, the ETC may initiate Lifeline service after determining that the household is otherwise eligible to receive Lifeline and obtaining all required certifications from the household. If the ETC determines that an individual at the applicant’s residential address is currently receiving Lifeline-supported service, the ETC must take an additional step to ensure that the applicant and the current subscriber are part of different households. To enable applicants to make this demonstration, the ETC must require applicants to complete and submit to the ETC a written document, to be developed by USAC as discussed below, containing the following: (1) an explanation of the Commission’s one-per-household rule; (2) a check box that an applicant can mark to indicate that he or she lives at an address occupied by multiple households; (3) a space for the applicant to certify that he or she shares an address with other adults who do not contribute income to the applicant’s household and share in the household’s expenses or benefit from the applicant’s income, pursuant to the definition we adopt here today; and (4) the penalty for a consumer’s failure to make the required one-per-household certification (i.e., de-enrollment). All ETCs must collect the completed document upon initial program enrollment from those consumers who apply for Lifeline using a residential address that the ETC determines is already receiving Lifeline-supported service.”
#5	47 C.F.R. § 54.416(b) (2015)	“All eligible telecommunications carriers must annually provide the results of their re-certification efforts, performed pursuant to [47 C.F.R.] § 54.410(f), to the Commission and the Administrator.”
#5	Annual Lifeline Eligible Telecommunications Carrier Certification Form, OMB 3060-0819 (Dec. 2014), at 1 (FCC	"All carriers must complete all or portions of all sections. Form must be submitted to USAC and filed with the Federal Communications Commission."

	Criteria	Description
	Form 555)	
#6	47 C.F.R. § 54.404(b)(6), (8), (10) (2015)	<p>“(b) The National Lifeline Accountability Database. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: ...</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>
#7	47 C.F.R. § 54.405(e)(4) (2015)	<p>“<i>De-enrollment for failure to re-certify.</i> Notwithstanding paragraph (e)(1) of this section, an eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier’s attempts to obtain re-certification of the subscriber’s continued eligibility as required by [47 C.F.R.] § 54.410(f) Prior to de-enrolling a subscriber under this paragraph, the eligible telecommunications carrier must notify the subscriber in writing separate from the subscriber’s monthly bill, if one is provided, using clear, easily understood language, that failure to respond to the re-certification request within 30 days of the date of the request will trigger de-enrollment. If a subscriber does not respond to the carrier’s notice of impending de-enrollment, the carrier must de-enroll the subscriber from Lifeline within five business days after the expiration of the subscriber’s time to respond to the re-certification efforts.”</p>
#8	47 C.F.R. § 54.407(c)(2) (2015)	<p>“After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 60 days, or who have cured their non-usage as provided for in [47 C.F.R.] § 54.405(e)(3). Any of these activities, if undertaken by the subscriber will establish “usage” of the Lifeline service:</p> <ul style="list-style-type: none"> (i) Completion of an outbound call; (ii) Purchase of minutes from the eligible telecommunications carrier to add to the subscriber’s service plan; (iii) Answering an incoming call from a party other than the

	Criteria	Description
		eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; or (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving the Lifeline service."
#8	47 C.F.R. § 54.405(e)(3) (2015)	" <i>De-enrollment for non-usage.</i> Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as 'usage' is defined in [47 C.F.R.] § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess or collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service within 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service."

Summary of Low Income Support Mechanism Beneficiary Audit Reports Released: November 1, 2018 – November 30, 2018

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Cellspan, Inc. LI - Attachment B	5	<ul style="list-style-type: none"> • <u>Form 497 and NLAD Variance.</u> The Beneficiary claimed subscribers on the FCC Form 497 who were not active in NLAD for the same period. 	\$228,410	\$24,087	\$24,087	Y
PR Wireless, Inc. LI - Attachment C	4	<ul style="list-style-type: none"> • No significant findings. 	\$546,749	\$2,776	\$2,776	Y
YourTel America, Inc.	2	<ul style="list-style-type: none"> • No significant findings. 	\$7,909	\$416	\$416	N
Cross Wireless, LLC	4	<ul style="list-style-type: none"> • No significant findings. 	\$2,504,605	\$2,295	\$2,227	N
Mescalero Apache Telecom, Inc.	5	<ul style="list-style-type: none"> • <u>Form 497 and NLAD Variance.</u> The Beneficiary claimed subscribers on the FCC Form 497 who were not active in NLAD for the same period. 	\$23,762	\$14,721	\$14,096	N
Smith Bagley, Inc.	4	<ul style="list-style-type: none"> • No significant findings. 	\$904,519	\$215	\$215	N
Tag Mobile, LLC - CA	3	<ul style="list-style-type: none"> • No significant findings. 	\$678,904	\$0	\$0	N
Micronesian Telecommunications	4	<ul style="list-style-type: none"> • <u>Form 497 and NLAD Variance.</u> The Beneficiary claimed subscribers on the FCC Form 497 who were not active in NLAD for the same period. 	\$21,257	\$4,449	\$4,449	N

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Total	31		\$4,916,115	\$48,959	\$48,266	

* The “Monetary Effect” amount may exceed the “USAC Management Recovery Action” amount if there are findings that do not warrant a recommended recovery or there are multiple findings within an audit that have overlapping exceptions between them.

Cellspan Inc.

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2016LR001

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EXECUTIVE SUMMARY

September 11, 2018

David Martin
Cellspan Inc.
7920 Beltline Road #730
Dallas, TX 75254

Dear David Martin:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Cellspan (Beneficiary), study area code 189033, 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.

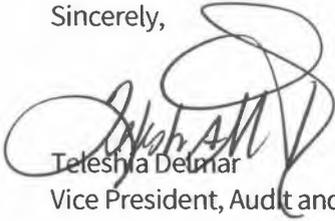
AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable 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 five detailed audit findings (Findings). For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Telesha Delmar', is written over a faint horizontal line. The signature is stylized and cursive.

Telesha Delmar
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 & Recommended Recovery
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.	\$24,087
Finding #2: 47 C.F.R. § 54.410(d) - Improper Certification Documentation Disclosures. The Beneficiary's subscriber certification documentation omitted required disclosures.	\$0
Finding #3: 47 C.F.R. § 54.410(f)(2) - Improper Recertification Process: Eligibility Database. Beneficiary did not utilize the Maryland state database that was available for use.	\$0
Finding #4: 47 C.F.R. §§ 54.405(e)(3) & 54.416(b) - Inaccurate Form 555 Reporting. The data the Beneficiary reported on its Form 555 did not agree to its detailed recertification and non-usage results.	\$0
Finding #5: 47 C.F.R. § 54.409(a) - Improper Qualification Criteria: Certification Documentation. The Beneficiary's subscriber certification documentation did not list the proper qualification criterion.	\$0
Total Net Monetary Effect	\$24,087

USAC MANAGEMENT RESPONSE

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

	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	\$24,087	
Finding #2	\$0	
Finding #3	\$0	
Finding #4	\$0	
Finding #5	\$0	
Total	\$24,087	

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 December 2015 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	24,693	\$228,410

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

BACKGROUND

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

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 documentation for 32 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 32 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.

F. 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. § 54.404(b) – Form 497 and NLAD Variance

CONDITION

AAD obtained and examined the Beneficiary's detailed subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Beneficiary reported the correct number of qualifying subscribers on the Form 497. Using the enrollment and de-enrollment dates in NLAD, AAD compared the subscribers who were identified as active in NLAD during the same time period used by the Beneficiary to determine the number of subscribers to report on its Form 497. AAD noted the following differences between NLAD and the Beneficiary's Form 497:

	No. of Subscribers
Form 497	24,693
NLAD	22,089
Difference	2,604

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 the subscribers who have met all requirements to be eligible for Lifeline Program support and for whom the Beneficiary provides Lifeline service.¹

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 it determined the subscribers claimed on the Form 497 using reports that were filtered to display all active subscribers, including those scheduled for de-enrollment who should not have been claimed on the Form 497.² The Beneficiary informed AAD that it has revised its reporting process going forward to correct this issue.³

EFFECT

Support Type	Monetary Effect & Recommended Recovery
Lifeline	\$24,087

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 collect, track, and report the

¹ See 47 C.F.R. § 54.407(a),(e) (2015); 47 C.F.R. § 54.417(a) (2014).

² Beneficiary responses to audit inquiries, received Mar. 30, 2017.

³ *Id.*

correct number of subscribers and transmit and/or update its new and existing subscriber data in NLAD, and maintain adequate documentation 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 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

The Data we received from Vcare was not filtered probably on customers that were still active in the system. But was flagged to be not reported on the 497 and to be deactivated in Vcare as well NLAD. Once realized, they provided a separate tab for those types of accounts and a separate tab for GREEN light accounts to report on 497. Since then, we have had 6 different PQA audits. With ZERO variances.

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

CONDITION

AAD obtained and examined certification documentation for a sample of 32 subscribers to determine whether the documentation contained all of the required disclosures. For 17 out of the 32 samples, AAD noted the following disclosures were omitted from the subscriber certification documentation:

Disclosure	No. of Affected Subscriber Certification Documentation
“If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days” 47 C.F.R. § 54.410(d)(3)(iv)	17

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.⁴

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the required disclosures. The Beneficiary informed AAD that it did not update the certification forms.⁵

EFFECT

The monetary effect for this finding is *de minimis*; however, there is a risk that a more significant error could occur if the Beneficiary continues to follow this practice with a larger subscriber base.

⁴ See 47 C.F.R. § 54.407(a) (2015).

⁵ Beneficiary responses to audit inquiries, received Mar. 30, 2017.

RECOMMENDATION

AAD does not recommend recovery of funds at this time. The Beneficiary must implement policies and procedures to ensure that it adheres to the disclosure requirements established by the Rules and obtains the proper certifications from its subscribers. AAD 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>.

BENEFICIARY RESPONSE

We only utilise [sic] our web based applications or App currently to avoid this mistake. Vcare currently operates both platforms for Cellspan.

Finding #3: 47 C.F.R. § 54.410(f)(2)(i)-(iii) – Improper Recertification Process: Eligibility Database

CONDITION

AAD obtained and examined the Beneficiary's process for completing the recertification process reported on the Form 555 that was due on February 1, 2016 to determine whether the Beneficiary's process was in accordance with the Rules.⁶ AAD examined a Memorandum of Understanding between the Beneficiary and the Maryland Department of Human Services, which gave the Beneficiary access to the Maryland state eligibility database as of January 16, 2015. Although the Beneficiary was granted access to the state eligibility database in January 2015, the Beneficiary informed AAD that it did not utilize the database to confirm subscribers' continued eligibility during its 2015 recertification process.⁷

Because the state of Maryland has an eligibility database, and the Beneficiary had access to this database, the Beneficiary was required to confirm its Lifeline subscribers' continued eligibility via the state's eligibility database.⁸ The Beneficiary must only contact subscribers directly to confirm continued eligibility if the subscriber is not included in the state eligibility database.⁹ Because the Beneficiary did not use the Maryland state eligibility database, AAD cannot conclude that the Beneficiary's recertification process was in accordance with the Rules.

⁶ 47 C.F.R. § 54.410(f)(1) (2015).

⁷ Beneficiary responses to audit inquiries, received Mar. 30, 2017.

⁸ See *Wireline Competition Bureau Reminds Carriers That They Must Re-Certify Eligibility of all Lifeline Subscribers by December 31, 2012*, WC Docket No. 11-42 *et. al.*, Public Notice, 27 FCC Rcd 12327 (WCB 2012) ; State of Maryland Public Service Commission, *Notice -- Lifeline Certification* (May 4, 2012), available at <https://www.psc.state.md.us/telecommunications/wp-content/uploads/sites/3/Notice-of-Lifeline-Certification.pdf>.

⁹ *Id.*

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the use of the state's eligibility database during its recertification process. The Beneficiary informed AAD that it was not aware that it could use the Maryland state eligibility database to perform the recertification process.¹⁰

EFFECT

Only 20 subscribers were required to be recertified during the audit period. Thus, the monetary effect for this finding is *de minimis*; however, there is a risk that a more significant error could occur if the Beneficiary continues to follow this practice with a larger subscriber base.

RECOMMENDATION

AAD does not recommend recovery of funds at this time. The Beneficiary must implement policies and procedures to ensure it confirms Lifeline subscribers' continued eligibility via the state eligibility database for those subscribers who qualify for Lifeline Program support based on qualifying programs included in the database. AAD recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to the recertification process. In addition, the Beneficiary can learn more about the required recertification process on USAC's website at <http://www.usac.org/li/program-requirements/recertify-subscribers/>.

BENEFICIARY RESPONSE

Cellspan performed the recertification the 1st year and then turned it over to Vcare. We quickly acknowledged that Vcare was better equipped [sic] to handle this process. Vcare utilizes [sic] the MD Data base for all recertifications. If customer is not on data base. We follow the requirements of the recertification procedures and note all contacts either via phone or mail in the customer's account.

Finding #4: 47 C.F.R. §§ 54.405(e)(3) and 54.416(b) – Inaccurate Form 555 Reporting

CONDITION

AAD obtained and examined the Beneficiary's detailed recertification and non-usage results to determine whether the Beneficiary reported accurate information on the Form 555 that was due on February 1, 2016. AAD noted differences in the following required data fields:

¹⁰ Beneficiary responses to audit inquiries, received Mar. 30, 2017.

Recertification Results:

	Block A	Block C	Block D
	No. of subscribers claimed on February FCC Form 497 of current Form 555 calendar year	No. of subscribers claimed on the February FCC Form 497 that were initially enrolled in the current Form 555 calendar year	No. of subscribers de-enrolled prior to recertification attempt by either the ETC, a state administrator, access to an eligibility database, or by USAC
Form 555	130	76	34
Recertification Results	1,525	1,505	0
Difference	(1,395)	(1,429)	34

Non-Usage Results:

Non-Usage Month	Subscribers De-Enrolled for Non-Usage per Form 555 (Block Q)	Non-Usage Results	Difference
April 2015	11	0	11
May 2015	4	0	4
June 2015	15	1	14
July 2015	149	1	148
August 2015	371	1	370
September 2015	934	1	933
October 2015	1,286	3	1,283
November 2015	1,160	1	1,159
December 2015	857	0	857
Total Difference			4,779

The Beneficiary must report the correct number of subscribers on the Form 555 based on adequate documentation that must be retained to support the number of subscribers reported.¹¹ Because the Beneficiary did not report the correct number of subscribers on the Form 555, AAD cannot conclude that the Beneficiary reported accurate recertification and non-usage information on the Form 555.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct number of subscribers on the Form 555. The Beneficiary informed AAD that its lack of knowledge of the Form 555 caused some confusion on how to report the information.¹² The Beneficiary stated that it now understands the process and information.¹³

¹¹ See 47 C.F.R. § 54.417(a) (2014); Annual Lifeline Eligible Telecommunications Carrier Certification Form Instructions, FCC Form 555 Instructions, OMB 3060-0819, at 3-4 (Nov. 2014).

¹² Beneficiary responses to audit inquiries, received Mar. 30, 2017.

¹³ *Id.*

EFFECT

There is no monetary effect for this finding as it does not correspond to a specific amount claimed for reimbursement on the Form 497. Further, it appears the Beneficiary recertified the continued eligibility of its subscribers and tracked subscribers for non-usage, but did not report accurate information on the Form 555.

RECOMMENDATION

AAD does not recommend recovery of funds at this time. The Beneficiary must implement an adequate system to report the correct number of subscribers on the Form 555. AAD recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Form 555 reporting requirements. In addition, the Beneficiary can learn more about Form 555 reporting requirements on USAC's website at <http://www.usac.org/li/tools/forms/default.aspx>.

BENEFICIARY RESPONSE

Cellspan did not calculate 555 properly due to confusing on supported dates. Cellspan corrected and re-submitted once understood during the initial stage of this audit. Since then, Vcare provides the 555 data for Cellspans [sic] approval.

Finding #5: 47 C.F.R. § 54.409(a) – Improper Qualification Criteria: Certification Documentation

CONDITION

AAD obtained and examined the Beneficiary's certification documentation for a sample of 17 subscribers to determine whether the Beneficiary was adhering to the Lifeline qualification criteria established by the Rules. For all of the selected subscribers, AAD noted that the Beneficiary's certification documentation used the federal poverty guidelines for 2014 to determine household income at 135% of the federal poverty level. However, based on the dates the subscribers signed the certification documentation, the Beneficiary should have used the 2015 federal poverty guidelines. The Beneficiary must adhere to the proper Lifeline qualification criteria established by the Rules. Because the Beneficiary did not use the 2015 federal poverty guidelines, AAD cannot conclude that the Beneficiary adhered to the proper Lifeline criterion.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the Lifeline qualification criteria. The Beneficiary informed AAD that it did not update the certification forms for the new criteria.¹⁴

EFFECT

There is no monetary effect for this finding, as the subscribers certified that they were eligible to receive Lifeline Program support based on another qualifying criterion listed on the subscriber certification documentation. In addition, the federal poverty guidelines for 2014 were lower than the guidelines for 2015. Therefore, subscribers who qualified under the federal poverty guidelines for 2014 would also qualify under

¹⁴ Beneficiary responses to audit inquiries, received Mar. 30, 2017.

the guidelines for 2015. 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

AAD does not recommend recovery of funds at this time. The Beneficiary must implement policies and procedures to ensure that it adheres to the Lifeline qualification criteria established by the Rules. AAD recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the qualification criteria for Lifeline Program purposes. In addition, the Beneficiary can learn more about Lifeline qualification criteria on USAC's website at <http://www.usac.org/li/program-requirements/verify-eligibility/>.

BENEFICIARY RESPONSE

Cellspan and Vacre[sic] works closely together to ensure that the proper poverty guidelines are being utylised [sic].

AAD RESPONSE

The Beneficiary states in its response that "Cellspan and V[ca]re works closely together to ensure that the proper poverty guidelines are being ut[i]li[z]ed." The Beneficiary's certification documentation used the federal poverty guidelines for 2014 to determine household income at 135% of the federal poverty level. However, based on the dates the subscribers signed the certification documentation, the Beneficiary should have used the 2015 federal poverty guidelines. Because the Beneficiary's certification documentation did not use the proper federal poverty guidelines, AAD cannot conclude that the Beneficiary adhered to the proper Lifeline criterion. Therefore AAD does not agree with the Beneficiary's assertion that "[t]he proper poverty guidelines are being ut[i]li[z]ed." Thus, AAD's position on this finding remains unchanged.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.404(b)(6), (8), (10) (2015)	<p><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	47 C.F.R. § 54.407(a) (2014)	Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier, based on the number of actual qualifying low-income consumers it serves.
#1	47 C.F.R. § 54.407(e) (2015)	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.
#1, 4	47 C.F.R. § 54.417(a) (2014)	Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Notwithstanding the preceding sentence, eligible telecommunications carriers must maintain the documentation required in [47 C.F.R.] § 54.410(d) and (f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier.

Finding	Criteria	Description
#2	47 C.F.R. § 54.410(d) (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> <p>(1) Provide the following information:</p> <ul style="list-style-type: none"> (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; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission’s rules and will result in the subscriber’s de-enrollment from the program; and (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person. <p>(2) Require each prospective subscriber to provide the following information:</p> <ul style="list-style-type: none"> (i) The subscriber’s full name; (ii) The subscriber’s full residential address; (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; (v) The subscriber’s date of birth; (vi) The last four digits of the subscriber’s social security number, or the subscriber’s Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number; (vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in [47 C.F.R.] § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; and (viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in [47 C.F.R.] § 54.409, the number of individuals in his or her household. <p>(3) Require each prospective subscriber to certify, under penalty of perjury, that:</p> <ul style="list-style-type: none"> (i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in [47 C.F.R.] § 54.409; (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

Finding	Criteria	Description
		<p>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 [47 C.F.R. §] 54.400(e);</p> <p>(iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days;</p> <p>(v) If the subscriber provided a temporary residential address to the eligible telecommunications carrier, he or she will be required to verify his or her temporary residential address every 90 days;</p> <p>(vi) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service;</p> <p>(vii) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge,</p> <p>(viii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and</p> <p>(ix) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to [47 C.F.R.] § 54.405(e)(4).</p>
#3	47 C.F.R. § 54.410(f)(1)-(2) (2015)	<p>(f) <i>Annual eligibility re-certification process.</i> (1) All eligible telecommunications carriers must annually re-certify all subscribers except for subscribers in states where a state Lifeline administrator or other state agency is responsible for re-certification of subscribers' Lifeline eligibility. (2) In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by: (i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or (ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review; or (iii) Obtaining a signed certification from the subscriber that meets the certification requirements in paragraph (d) of this section.</p>
#3	<p><i>Wireline Competition Bureau Reminds Carriers That They Must Re-Certify Eligibility of all Lifeline Subscribers by December 31, 2012, WC Docket No. 11-42 et al., Public Notice, 27 FCC Rcd 1, 1-2 (WCB 2012)</i></p>	<p><i>Process for Re-Certification....</i> ETCs and state agencies have the option of re-certifying consumers in one of two ways, as described in 47 C.F.R. § 54.410(f). First, to the extent that a database is available to verify program or income-based eligibility, ETCs or state agencies must query the database to confirm the subscriber's continued eligibility. The ETC or state agency must use any available database to verify continued eligibility even if a database is only available for a subset of programs in a state. In the absence of a database, an ETCs [sic] or a state agency must re-certify the continued eligibility of a subscriber by obtaining a signed certification from the subscriber that meets the requirements of 47 C.F.R. § 54.410(d). If there is a database in the state, but the ETC or state agency cannot re-certify the subscriber through that database (i.e.,</p>

Finding	Criteria	Description
	(internal footnotes omitted)	the subscriber cannot be found in the database), the state agency or ETC may re-certify the continued eligibility of a subscriber by obtaining a signed certification from the subscriber that meets the requirements of 47 C.F.R. § 54.410(d).
#3	State of Maryland Public Service Commission, <i>Notice -- Lifeline Certification</i> (May 4, 2012), available at https://www.psc.state.md.us/telecommunications/wp-content/uploads/sites/3/Notice-of-Lifeline-Certification.pdf	As a non-default State, Maryland has exercised its jurisdiction under Section 214 of the Telecommunications Act of 1996 to determine the eligibility criteria for low income customers in Maryland. Public Utilities Article § 8-201(h) designates the Maryland Department of Human Resources as the entity to manage the list of eligible Lifeline customers as those receiving at least one of the services identified in Public Utilities Article § 8-201(a)(2). The Maryland Department of Human Resources has designated the Office of Home Energy Programs to maintain and distribute the list of eligible Lifeline customers. 47 C.F.R. § 54.409(a)(3), 47 C.F.R. § 54.409(b)(2) and 47 C.F.R. [§] 54.409(c)(2) permits Eligible Telecommunications Carriers (“ETCs”) in Maryland to provide Lifeline service to and receive reimbursement for only those customers designated by the Office of Home Energy Programs as being eligible to receive those benefits.
#4	47 C.F.R. § 54.405(e)(3) (2015)	<i>De-enrollment for non-usage.</i> Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as “usage” is defined in [47 C.F.R.] § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess and collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days’ notice, using clear, easily understood language, that the subscriber’s failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service with[in] 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber’s Lifeline service. Eligible telecommunications carriers shall report to the Commission annually the number of subscribers de-enrolled for non-usage under this paragraph. This de-enrollment information must [be] reported by month and must be submitted to the Commission at the time an eligible telecommunications carrier submits its annual certification report pursuant to [47 C.F.R.] § 54.416.
#4	47 C.F.R. § 54.416(b) (2015)	All eligible telecommunications carriers must annually provide the results of their re-certification efforts, performed pursuant to [47 C.F.R.] § 54.410(f), to the Commission and the Administrator. Eligible telecommunications carriers designated as such by one or more states pursuant to [47 C.F.R.] § 54.201 must also provide, on an annual basis, the results of their re-certification efforts to state commissions for subscribers residing in those states where the state designated the eligible telecommunications carrier. Eligible telecommunications carriers must also provide their annual re-certification results for subscribers residing on Tribal lands to the relevant Tribal governments.
#4	Annual Lifeline Eligible Telecommunications Carrier Certification Form	<u>Block A</u> Report the number of Lifeline subscribers for which the ETC claimed Lifeline support on its February FCC Form 497 for the current Form 555 calendar year (i.e., the FCC Form 497 for the February <i>data</i> month) for the SAC listed. If the ETC did not claim support on its February FCC Form

Finding	Criteria	Description
	Instructions, FCC Form 555 Instructions, OMB 3060-0819, at 2 (Nov. 2014) (<i>Form 555 Instructions</i>)	497 for the reported SAC, the ETC should enter zero in Block A.
#4	<i>Form 555 Instructions</i> , at 3	<u>Block C</u> Report the number of Lifeline subscribers for which the ETC claimed Lifeline support on its February FCC Form 497 for the current Form 555 calendar year that were <i>initially</i> enrolled in Lifeline in that year. For example, for the 2014 Form 555 calendar year, if an ETC claimed 100 subscribers on its February 2014 FCC Form 497 and 10 of those subscribers <i>initially</i> enrolled in the Lifeline program in January or February 2014 (that is, they did not have service as of December 31, 2013), then the ETC should enter 10 in Block C.
#4	<i>Form 555 Instructions</i> , at 3	<u>Block F</u> Report the number of Lifeline subscribers the ETC contacted directly to obtain recertification of eligibility. Enter zero if the ETC relied solely on methods other than direct contact with subscribers (e.g., consulting a state database or relying on a Lifeline administrator) to recertify eligibility. If the eligibility of any subscriber was reviewed through the use of a state database or state administrator and subsequently contacted directly by the ETC in an attempt to recertify eligibility, those subscribers should be recorded in Block F through J as appropriate and not in Blocks K and L. All subscribers subject to recertification, calculated in Block E, must be accounted for in Block F or Block K. The total of Blocks F and K should equal the number reported in Block E.
#4	<i>Form 555 Instructions</i> , at 6	Section 4: Pre-Paid ETCs All ETCs must complete the appropriate check box; pre-paid ETCs must complete all of Section 4. Section 4 requires the ETC to select whether or not the ETC is a pre-paid Lifeline service provider. Pre-paid ETCs are generally wireless service providers that do not assess or collect a monthly fee from their Lifeline subscribers. If the ETC selects yes, the ETC must report by month the number of Lifeline customers de-enrolled as a result of non-usage. Section 54.405(e)(3) of the Lifeline rules requires ETCs that do not assess or collect a monthly fee from their subscribers to de-enroll subscribers who do not use their Lifeline service for 60 consecutive days. Section 54.405(e)(3) requires ETCs to provide such subscribers with a 30-day notice stating that their service will be terminated if they fail to use their service within the subsequent 30 days. ETCs that do not assess or collect a monthly fee from their Lifeline customers must complete Section 4.
#4	<i>Form 555 Instructions</i> , at 6	<u>Block Q</u> Report the number of subscribers de-enrolled for non-usage for that month as well as a total for the number of subscribers de-enrolled from non-usage for the year.
#5	47 C.F.R. § 54.409(a) (2015)	To constitute a qualifying low-income consumer: (1) A consumer's household income as defined in [47 C.F.R.] § 54.400(f) must be at or below 135% of the Federal Poverty Guidelines for a household of that size; or (2) The consumer, one or more of the consumer's dependents, or

Finding	Criteria	Description
		<p>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; or (3) The consumer meets additional eligibility criteria established by a state for its residents, provided that such-state specific criteria are based solely on income or other factors directly related to income.</p>

PR Wireless, Inc.

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2016LR007

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EXECUTIVE SUMMARY

September 10, 2018

Adrian Gonzalez
PR Wireless, Inc.
Metro Office Park, Street 1, Building 1, Suite 300, Chrysler Building
Guaynabo, PR 00968

Dear Adrian Gonzalez:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of PR Wireless, Inc. (Beneficiary), study area code 639007, 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 four detailed audit findings (Findings) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Teleshia Delmar', is written over a circular stamp or seal.

Teleshia Delmar
Vice President, Audit and Assurance Division

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery
Finding #1: 47 C.F.R. § 54.404(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.	\$2,239
Finding #2: 47 C.F.R. §§ 54.410(d) and 54.410(f)(2)(iii) – Improper Certification and Recertification Documentation Disclosures. The Beneficiary’s subscriber certification and recertification documentation omitted required disclosures.	\$537
Finding #3: 47 C.F.R. § 54.403(a)(1) – Failure to Pass through of Lifeline Program Support. The Beneficiary did not pass through the Lifeline Program support claimed for reimbursement on the Form 497 to its subscribers.	\$0
Finding #4: 47 C.F.R. §§ 54.405(e)(3) and 54.416(b) – Inaccurate Form 555 Reporting. The data the Beneficiary reported on its Form 555 did not agree to its detailed recertification and non-usage results.	\$0
Total Net Monetary Effect	\$ 2,776

USAC MANAGEMENT RESPONSE

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

	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	\$2,239	
Finding #2	\$537	
Finding #3	\$0	
Finding #4	\$0	
Total	\$ 2,776	

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

Support Type	Number of Subscribers	Amount of Support
Lifeline	59,108	\$546,749

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 Puerto Rico.

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 63 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.

F. 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. § 54.404(b) – Form 497 and NLAD Variance

CONDITION

AAD obtained and examined the Beneficiary's detailed subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Beneficiary reported the correct number of qualifying subscribers on the Form 497. Using the enrollment and de-enrollment dates in NLAD, AAD compared the subscribers who were identified as active in NLAD during the same time period that was used by the Beneficiary to determine the number of subscribers to report on its Form 497. AAD noted the following differences between NLAD and the Beneficiary's Form 497:

	No. of Subscribers
Form 497	59,108
NLAD	58,866
Difference	242

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 requirements to be eligible for Lifeline Program support and for whom the Beneficiary provides Lifeline service.¹ 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 informed AAD that this incident was due to a misunderstanding of the report generated from NLAD.² In addition, the Beneficiary believes that this issue will no longer arise due to the snapshot date rule that has since been codified at 47 C.F.R. § 54.407(a).³

EFFECT

Support Type	Monetary Effect & Recommended Recovery
Lifeline	\$2,239

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 collect, track, and report the

¹ See 47 C.F.R. §§ 54.407(a) (2015), (e) (2016), 417(a).

² Beneficiary responses to audit inquiries, received Feb. 24, 2017.

³ *Id.*

correct number of subscribers and 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

Our Compliance Department audits all Lifeline sales before inclusion in both in NLAD and in the Form 497. As of that time, there wasn't a Detailed Subscriber Snapshot[sic] Report, which meant that PR Wireless had to run a report on the first date after the end of the month (+1). The 242 subscribers were end of March sales that were not included in NLAD because they hadn't been audited by our Department as of the April 1 date. They should have been excluded from the Form 497, as well. Nevertheless, when preparing the March 2016 report, we reconciled the report in a later date and erroneously included them in our Form 497 due to a misunderstanding of the "Enrollment Date" column of the former previous NLAD subscriber report. For that report, our Compliance Department mistakenly believed that the "Enrollment Date" column was the enrollment date in NLAD, instead of the Initialization date, which is the date of the sale. Therefore, we erroneously left these 242 subscribers on the Form 497 because we thought the subscribers were enrolled (and therefore audited). Nevertheless, the end result is that these subscribers were valid Lifeline subscribers since all passed the audit subsequently. This timing issue will no longer happen since NLAD now provides a Detailed Subscriber Snapshot report that serves as the basis for monthly Lifeline reimbursement claims.

AAD RESPONSE

The Beneficiary states in its response that, "these subscribers were valid Lifeline subscribers since all passed the [Beneficiary's] audit subsequently." While the Beneficiary asserts that these subscribers were valid Lifeline subscribers since all passed the Beneficiary's audit subsequently, these subscribers were not yet determined to be eligible for Lifeline support on the Form 497 for March 2016 (the audit period). Further, the Beneficiary acknowledges that, "[t]hey should have been excluded from the Form 497" and that "when preparing the March 2016 report, we reconciled the report in a later date and erroneously included them in our Form 497 due to a misunderstanding of the "Enrollment Date" column of the former previous NLAD subscriber report." The Beneficiary also acknowledges that, "we erroneously left these 242 subscribers on the Form 497 because we thought the subscribers were enrolled (and therefore audited)." The Beneficiary must only report the actual number of qualifying Lifeline subscribers on the Form 497 who have met all requirements to be eligible for Lifeline Program support and for whom the Beneficiary provides Lifeline service. 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. For these reasons, AAD's position on this finding remains unchanged.

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

CONDITION

AAD obtained and examined certification documentation for a sample of 56 subscribers and recertification documentation for a sample of 2 subscribers to determine whether the documentation contained all of the required disclosures. AAD noted the following disclosures were omitted from the subscriber certification and recertification documentation:

Disclosure	No. of Affected Subscriber Certification Documentation	No. of Affected Subscriber Recertification Documentation
<i>Portion of disclosure omitted:</i> “de-enrollment or being barred from the program” 47 C.F.R. § 54.410(d)(1)(i)	55	2
<i>Portion of disclosure omitted:</i> “Lifeline is a non-transferable benefit” 47 C.F.R. § 54.410(d)(1)(vi)	55	2
“Whether the subscriber’s residential address is permanent or temporary” 47 C.F.R. § 54.410(d)(2)(iii)	56	2
“Require each prospective subscriber to certify, under penalty of perjury, that: (i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in [47 C.F.R.] § 54.409” 47 C.F.R. § 54.410(d)(3)(i)	55	2
<i>Portion of disclosure omitted:</i> “Require each prospective subscriber to certify, under penalty of perjury, that: [...] 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)	55	2
Total No. of Affected Subscribers⁴	56	2

The Beneficiary’s subscriber certification and recertification documentation did not contain all of the required disclosures. The Beneficiary must list all of the required disclosures on the subscriber certification and recertification documentation. Because the certification and recertification 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.⁵

⁴ Documentation for each subscriber certification or recertification may omit multiple disclosures. Therefore, one certification or recertification may be included in multiple rows in the table above.

⁵ See 47 C.F.R. § 54.407(a).

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the required disclosures. The Beneficiary informed AAD that it believed it had included all of the required certification and recertification documentation disclosures.⁶ In addition, the Beneficiary stated that the required disclosures were translated into paragraphs that were simple, coherent and easy to understand for the native Spanish speaker.⁷

EFFECT

Support Type	Monetary Effect & Recommended Recovery
Lifeline	\$537

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 adheres to the disclosure requirements established by the Rules and 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 and recertification documentation. In addition, the Beneficiary can learn more about Lifeline subscriber certification and recertification disclosure requirements on USAC's website at <http://www.usac.org/li/program-requirements/verify-eligibility/record-keeping-requirements.aspx>.

BENEFICIARY RESPONSE

PR Wireless submits that its certification and recertification forms during the time in question were substantially in compliance with the Lifeline rules. The company drafted its forms following the English disclosures of the Lifeline rules, which did not mandate specific language but, rather, required that certain disclosures and affirmations be stated using "clear, easily understood language[.]" 47 C.F.R. Section 54.410(d). Thus, the forms contained the required certifications and affirmations, set forth in a manner that was clear, concise and understandable for the Puerto Rican Spanish native speaker.

PR Wireless disagrees with the recommendation to recover reimbursements purely because some disclosure or affirmation language did not match the language in the rules. These were not improper payments; they were reimbursements to PR Wireless for providing service to Lifeline customers who had passed NLAD review and completed the required certification forms, which contained substantially all required disclosures and affirmations. These are all undeniably eligible subscribers, and PR Wireless has provided discounted service to these customers in good faith. Minor omissions or misstatements of certification language do not equal program abuse and thus should not be the subject of recovery.

⁶ Beneficiary responses to audit inquiries, received Feb. 24, 2017.

⁷ *Id.*

We note that this finding is no longer applicable because the FCC implemented universal consumer forms for the Lifeline program starting July 1, 2018.

AAD RESPONSE

The Beneficiary states in its response that, “PR Wireless submits that its certification and recertification forms during the time in question were substantially in compliance with the Lifeline rules. The company drafted its forms following the English disclosures of the Lifeline rules, which did not mandate specific language but, rather, required that certain disclosures and affirmations be stated using ‘clear, easily understood language[.]’” While the Beneficiary may believe that “the forms contained the required certifications and affirmations, set forth in a manner that was clear, concise and understandable for the Puerto Rican Spanish native speaker,” the certification and recertification forms did not contain the language required by the Rules and the subscribers did not complete the required certifications. Therefore, AAD cannot conclude that these subscribers were eligible to receive Lifeline Program support.

The Beneficiary also states in its response that, “PR Wireless disagrees with the recommendation to recover reimbursements purely because some disclosure or affirmation language did not match the language in the rules” and that “[t]hese were not improper payments; they were reimbursements to PR Wireless for providing service to Lifeline customers who had passed NLAD review and completed the required certification forms, which contained substantially all required disclosures and affirmations.” AAD does not agree with the Beneficiary’s statement as its subscribers did not complete the required certifications; therefore its subscribers are not eligible to receive Lifeline Program support. The Beneficiary also states that “[m]inor omissions or misstatements of certification language do not equal program abuse and thus should not be the subject of recovery.” By omitting the required language from its certification and recertification forms, the Beneficiary did not comply with the Rules. While the Beneficiary’s subscribers may have passed the NLAD review, there are additional requirements to demonstrate a subscriber is eligible to receive Lifeline Program support. Because the certification and recertification 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.⁸

For these reasons, AAD’s position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 54.403(a)(1) – Failure to Pass through of Lifeline Program Support.

CONDITION

AAD obtained and examined documentation for 63 subscribers to determine whether the Beneficiary passed through the Lifeline Program support claimed for reimbursement on the Form 497 to its subscribers. For 7 of the 63 subscribers, AAD noted that the subscriber bills did not include a Lifeline discount for the first month in which the subscriber was enrolled to receive Lifeline Program support.

⁸ See 47 C.F.R. § 54.407(a).

The Beneficiary informed AAD that these 7 subscribers had existing service with the Beneficiary prior to them enrolling to receive Lifeline Program support.⁹ The bill for each of these subscribers was generated prior to the subscriber enrolling to receive Lifeline Program support.¹⁰ Thus, the bills did not include the Lifeline discount in the subscribers' first month of enrollment in the Lifeline Program.¹¹ However, the Beneficiary claimed these subscribers for reimbursement on the Form 497. The Beneficiary must only claim qualifying subscribers for reimbursement on the Form 497 for whom the Beneficiary has passed through Lifeline Program support.

The Beneficiary informed AAD that this issue would correct itself when the subscribers ultimately de-enrolled, as the Beneficiary would pass through a discount at the beginning of the month, the subscriber would de-enroll during the middle of the month, and the Beneficiary would not claim the subscriber on that month's Form 497 because the subscriber would not be active as of that month's Form 497 snapshot date.¹²

AAD notes that the Form 497 snapshot requirement was not in place during the audit period. Further, even if the snapshot date had been in effect, the Beneficiary must only claim qualifying subscribers for reimbursement on the Form 497 for whom the Beneficiary has passed through Lifeline Program support. The Beneficiary did not pass through Lifeline Program support for these subscribers when it claimed these subscribers on the Form 497. Because the Beneficiary did not pass through the Lifeline Program support to its subscribers, AAD cannot conclude that these subscribers were eligible to be claimed for reimbursement on the Form 497.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the requirement to pass through the full amount of Lifeline support to the qualifying subscribers who are claimed on the Form 497. The Beneficiary informed AAD that since it bills subscribers and generates invoices one month in advance, when an existing non-Lifeline subscriber qualifies for Lifeline discount and transfers his/her service to a Lifeline plan, the Beneficiary's billing system applies the Lifeline discount to the next generated invoice (i.e. next billing cycle).¹³ The Lifeline discount that is not received by the subscriber at the time he/she transferred to a Lifeline plan is provided to the customer when he/she de-enrolls from Lifeline.¹⁴

EFFECT

The monetary effect for this finding is *de minimis*; however, there is a risk that a more significant error could occur if the Beneficiary continues to follow this practice with a larger subscriber base.

RECOMMENDATION

AAD does not recommend recovery of funds at this time. The Beneficiary must implement policies and procedures to ensure that it passes through the full amount of Lifeline Program support to its eligible Lifeline

⁹ Beneficiary responses to audit inquiries, received Mar. 9, 2017.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ Beneficiary responses to audit inquiries, received Dec. 8, 2017.

¹⁴ *Id.*

subscribers. AAD recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the requirements for passing through Lifeline Program support.

BENEFICIARY RESPONSE

PR Wireless' billing system is prepaid; which means that we bill the subscriber a month in advance. Therefore, for those subscribers that were existing non-Lifeline subscribers and were enrolled in the Lifeline Program in a selected month, that discount would not be reflected in the first bill since that bill was already sent to the subscriber [sic]. By the same means, when that same subscriber de-enrolls, we award the subscriber a discount in the last month even though we don't seek that reimbursement with USAC. The end effect is net.

Nevertheless, since November 2016, PR Wireless decided to manually identify and exclude those subscribers who were billed in advance and did not received [sic] the Lifeline discount in the period claimed. Therefore, at the end, when the subscribers de-enrolls, PR Wireless is assuming one month of discount that will not be reimbursed by USAC. The current end result is a loss of one month's discount to PR Wireless.

AAD RESPONSE

The Beneficiary states in its response that, "[Lifeline] discount would not be reflected in the first bill since that bill was already sent to the subscriber" and that "when that same subscriber de-enrolls, we award the subscriber a discount in the last month even though we don't seek that reimbursement with USAC. The end effect is net." However, the Beneficiary acknowledges that "since November 2016, PR Wireless decided to manually identify and exclude those subscribers who were billed in advance and did not received the Lifeline discount in the period claimed." Because the Beneficiary did not pass through Lifeline Program support for these subscribers when it claimed these subscribers on the Form 497, AAD cannot conclude that these subscribers were eligible to be claimed for reimbursement on the Form 497.

For this reason, AAD's position on this finding remains unchanged.

Finding #4: 47 C.F.R. §§ 54.405(e)(3) and 54.416(b) – Inaccurate Form 555 Reporting

CONDITION

AAD obtained and examined the Beneficiary's detailed recertification and non-usage results to determine whether the Beneficiary reported accurate information on the Form 555 that was due on February 1, 2016. AAD noted differences in the following required data fields:

Recertification Results:

	Block C	Block F	Block G	Block K
	No. of subscribers claimed on the February FCC Form 497 that were initially enrolled in the current Form 555 calendar year	No. of subscribers ETC contacted directly to recertify eligibility through attestation	No. of subscribers responding to ETC contact	No. of subscribers whose eligibility was reviewed by state administrator, ETC access to eligibility database, or by USAC
Form 555	4,840	51,586	41,848	0
Recertification Results	4,835	50,915	41,177	676
Difference	5	671	671	(676)

Non-Usage Results:

Non-Usage Month	Form 555	Non-Usage Results	Difference
July 2015	53	52	1
August 2015	41	39	2
September 2015	51	47	4
Total Difference			7

The Beneficiary must report the correct number of subscribers on the Form 555 based on adequate documentation that must be retained to support the number of subscribers reported.¹⁵ Because the Beneficiary did not report the correct number of subscribers on the Form 555, AAD cannot conclude that the Beneficiary reported accurate recertification and non-usage information on the Form 555.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct number of subscribers on the Form 555. The Beneficiary informed AAD that the differences in the Recertification Results were due to a manual error during report preparation.¹⁶ In addition, the Beneficiary informed AAD that the differences in the Non-Usage results are due to a system failure while processing de-enrollment, which resulted in duplicate subscribers being reported in the detailed Non-Usage Results.¹⁷

EFFECT

There is no monetary effect for this finding as it does not correspond to a specific amount claimed for reimbursement on the Form 497. Further, it appears the Beneficiary recertified the continued eligibility of its subscribers and tracked subscribers for non-usage, but did not report accurate information on the Form 555.

¹⁵ See 47 C.F.R. § 54.417(a) and FCC Form 555 Instructions, OMB 3060-0819, at 3-4.

¹⁶ Beneficiary responses to audit inquiries, received Dec. 8, 2017.

¹⁷ *Id.*

RECOMMENDATION

AAD does not recommend recovery of funds at this time. The Beneficiary must implement an adequate system to report the correct number of subscribers on the Form 555. AAD recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Form 555 reporting requirements. In addition, the Beneficiary can learn more about Form 555 reporting requirements on USAC's website at <http://www.usac.org/li/tools/forms/default.aspx>.

BENEFICIARY RESPONSE

For the Recertification and the Non Usage findings, new validations were implemented to ensure accurate Form 555 reporting. First, the non-usage report has been automated and runs on a daily basis. Second, once the transaction to eliminate the Lifeline discount is executed, the Compliance Department receives a status report. If there was an error, the Compliance Team manually executes the process and follows up to make sure the transaction is properly completed. Third, and lastly, during our monthly reconciliation, we compare the list of non-usage transactions with the Detailed Subscriber Snapshot report to make sure they were properly de-enrolled from NLAD.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.404(b)(6), (8), (10) (2016)	<p><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. § 54.407(a) (2015)	Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier, based on the number of actual qualifying low-income consumers it serves directly.
#1	47 C.F.R. § 54.407(e) (2016)	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.
#1, 4	47 C.F.R. § 54.417(a) (2016)	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 [47 C.F.R.] §§ 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

Finding	Criteria	Description
#2	47 C.F.R. § 54.410(d) (2015)	<p>preceding calendar years.</p> <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> <p>(1) Provide the following information:</p> <ul style="list-style-type: none"> (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; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission’s rules and will result in the subscriber’s de-enrollment from the program; and (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person. <p>(2) Require each prospective subscriber to provide the following information:</p> <ul style="list-style-type: none"> (i) The subscriber’s full name; (ii) The subscriber’s full residential address; (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; (v) The subscriber’s date of birth; (vi) The last four digits of the subscriber’s social security number, or the subscriber’s Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number; (vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in [47 C.F.R.] § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; and (viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in [47 C.F.R.] § 54.409, the number of individuals in his or her household. <p>(3) Require each prospective subscriber to certify, under penalty of perjury, that:</p> <ul style="list-style-type: none"> (i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in [47 C.F.R.] § 54.409; (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

Finding	Criteria	Description
		<p>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 [47 C.F.R. §] 54.400(e);</p> <p>(iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days;</p> <p>(v) If the subscriber provided a temporary residential address to the eligible telecommunications carrier, he or she will be required to verify his or her temporary residential address every 90 days;</p> <p>(vi) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service;</p> <p>(vii) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge,</p> <p>(viii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and</p> <p>(ix) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to [47 C.F.R.] § 54.405(e)(4).</p>
#2	47 C.F.R. § 54.410(f)(2)(iii) (2015)	In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by:... (iii) Obtaining a signed certification from the subscriber that meets the certification requirements in paragraph (d) of this section.
#3	47 C.F.R. § 54.403(a)(1) (2015)	<i>Basic support amount.</i> Federal Lifeline support in the amount of \$9.25 per month will be made available to an eligible telecommunications carrier providing Lifeline service to a qualifying low-income consumer, if that carrier certifies to the Administrator that it will pass through the full amount of support to the qualifying low-income consumer and that it has received any non-federal regulatory approvals necessary to implement the rate reduction.
#4	47 C.F.R. § 54.405(e)(3) (2015)	<i>De-enrollment for non-usage.</i> Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as "usage" is defined in [47 C.F.R.] § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess and collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service with 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service. Eligible telecommunications carriers shall report to the Commission annually the number of subscribers de-enrolled for non-

Finding	Criteria	Description
		usage under this paragraph. This de-enrollment information must [be] reported by month and must be submitted to the Commission at the time an eligible telecommunications carrier submits its annual certification report pursuant to [47 C.F.R.] § 54.416.
#4	47 C.F.R. § 54.416(b) (2016)	All eligible telecommunications carriers must annually provide the results of their re-certification efforts, performed pursuant to [47 C.F.R.] § 54.410(f), to the Commission and the Administrator. Eligible telecommunications carriers designated as such by one or more states pursuant to [47 C.F.R.] § 54.201 must also provide, on an annual basis, the results of their re-certification efforts to state commissions for subscribers residing in those states where the state designated the eligible telecommunications carrier. Eligible telecommunications carriers must also provide their annual re-certification results for subscribers residing on Tribal lands to the relevant Tribal governments.
#4	Annual Lifeline Eligible Telecommunications Carrier Certification Form Instructions, FCC Form 555 Instructions, OMB 3060-0819, at 3 (Nov. 2014) (<i>Form 555 Instructions</i>)	<u>Block C</u> Report the number of Lifeline subscribers for which the ETC claimed Lifeline support on its February FCC Form 497 for the current Form 555 calendar year that were <i>initially</i> enrolled in Lifeline in that year. For example, for the 2014 Form 555 calendar year, if an ETC claimed 100 subscribers on its February 2014 FCC Form 497 and 10 of those subscribers <i>initially</i> enrolled in the Lifeline program in January or February 2014 (that is, they did not have service as of December 31, 2013), then the ETC should enter 10 in Block C.
#4	<i>Form 555 Instructions</i> , at 3	<u>Block F</u> Report the number of Lifeline subscribers the ETC contacted directly to obtain recertification of eligibility. Enter zero if the ETC relied solely on methods other than direct contact with subscribers (e.g., consulting a state database or relying on a Lifeline administrator) to recertify eligibility. If the eligibility of any subscriber was reviewed through the use of a state database or state administrator and subsequently contacted directly by the ETC in an attempt to recertify eligibility, those subscribers should be recorded in Block F through J as appropriate and not in Blocks K and L. All subscribers subject to recertification, calculated in Block E, must be accounted for in Block F or Block K. The total of Blocks F and K should equal the number reported in Block E.
#4	<i>Form 555 Instructions</i> , at 3	<u>Block G</u> Report the number of Lifeline subscribers that responded to the ETC's request to recertify their eligibility for Lifeline. This number should be equal to the number in Block F (if every subscriber contacted responded) or less than the number reported in Block F (if not every subscriber contacted responded). Enter zero if the ETC relied solely on methods other than direct contact with subscribers (e.g., consulting a state database or relying on a Lifeline administrator) to recertify eligibility, or if no subscriber responded.
#4	<i>Form 555 Instructions</i> , at 4	<u>Block K</u> Report the number of consumers for which the ETC relied on a source other than direct contact with the subscriber to confirm continued eligibility. An ETC can rely on a state database to confirm a subscriber

Finding	Criteria	Description
		<p>continued to be eligible for Lifeline. An ETC can also rely on a Lifeline state administrator to confirm consumer eligibility or on USAC in those instances where the ETC has elected USAC to perform the recertification. An ETC must report the number of subscribers for which it relied on any of these methods in Block K.</p> <p>If any subscribers are subsequently contacted directly by the ETC in an attempt to recertify eligibility, those subscribers should be listed in Blocks F through J as appropriate and not in Block K. <u>ETCs should be careful not to double count these subscribers.</u> Enter zero if the ETC relied solely on direct contact with subscribers to recertify eligibility.</p> <p>ETCs electing to use USAC to perform their recertification should NOT also attempt to recertify subscribers on their own. ETCs should NOT enter any subscribers recertified by USAC in Blocks F through J.</p>
#4	<p><i>Form 555 Instructions, at 6</i></p>	<p>Section 4: Pre-Paid ETCs</p> <p>All ETCs must complete the appropriate check box; pre-paid ETCs must complete all of Section 4. Section 4 requires the ETC to select whether or not the ETC is a pre-paid Lifeline service provider. Pre-paid ETCs are generally wireless service providers that do not assess or collect a monthly fee from their Lifeline subscribers. If the ETC selects yes, the ETC must report by month the number of Lifeline customers de-enrolled as a result of non-usage. Section 54.405(e)(3) of the Lifeline rules requires ETCs that do not assess or collect a monthly fee from their subscribers to de-enroll subscribers who do not use their Lifeline service for 60 consecutive days. Section 54.405(e)(3) requires ETCs to provide such subscribers with a 30-day notice stating that their service will be terminated if they fail to use their service within the subsequent 30 days. ETCs that do not assess or collect a monthly fee from their Lifeline customers must complete Section 4.</p>
#4	<p><i>Form 555 Instructions, at 6</i></p>	<p><u>Block Q</u></p> <p>Report the number of subscribers de-enrolled for non-usage for that month as well as a total for the number of subscribers de-enrolled from non-usage for the year.</p>

Summary of Low Income Support Mechanism Beneficiary Audit Reports Released: December 1, 2018 – December 31, 2018

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Entity Disagreement
Cherokee Telephone	3	<ul style="list-style-type: none"> No significant findings. 	\$4,452	\$519	\$519	N
T-Mobile Puerto Rico, LLC LI – Attachment D	3	<ul style="list-style-type: none"> <u>Form 497 and NLAD Variances.</u> The Beneficiary claimed subscribers on the FCC Form 497 who were not active in NLAD for the same period. 	\$47,860	\$2,072	\$2,072	Y
American Samoa Telecommunications Authority	5	<ul style="list-style-type: none"> No significant findings. 	\$4,468	\$231	\$231	N
US Connect, LLC	7	<ul style="list-style-type: none"> <u>Inaccurate Form 497 Reporting.</u> The number of subscribers reported on the FCC Form 497 does not agree with the Beneficiary’s subscriber listing. 	\$21,738	\$18,297	\$17,630	N
Puerto Rico Telephone Company d/b/a Claro	1	<ul style="list-style-type: none"> No significant findings. 	\$235,514	\$278	\$278	N
Telrite Corporation (PR) LI – Attachment E	1	<ul style="list-style-type: none"> <u>Form 497 and NLAD Variance.</u> The Beneficiary claimed subscribers on the FCC Form 497 who were not active in NLAD for the same period. 	\$2,209,224	\$2,405	\$2,405	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Entity Disagreement
Airvoice Wireless LLC	1	<ul style="list-style-type: none"> • <u>Form 497 and NLAD Variance.</u> The Beneficiary claimed subscribers on the FCC Form 497 who were not active in NLAD for the same period. 	\$121,258	\$2,599	\$2,599	N
BTI Communications Inc. LI – Attachment F	3	<ul style="list-style-type: none"> • <u>Form 497 and NLAD Variance.</u> The Beneficiary did not enroll subscribers in the National Lifeline Accountability Database (NLAD). 	\$46,694	\$41,218	\$41,218	Y
Total	24		\$2,691,208	\$67,619	\$66,952	

* The “Monetary Effect” amount may exceed the “USAC Management Recovery Action” amount if there are findings that do not warrant a recommended recovery or there are multiple findings within an audit that have overlapping exceptions between them.



**T-Mobile Puerto Rico, LLC
(Study Area Code (SAC)
Name - AT&T Wireless
Services*)**

Limited Scope Audit on Compliance with the Federal Universal Service Fund
Lifeline Support Mechanism Rules
USAC Audit No. LI2017BE048

* Current owner of the SAC is T-Mobile Puerto Rico, LLC (T-Mobile). Approval to change the SAC Name was denied at the time T-Mobile became the successor-in-interest to the ETC designation.

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EXECUTIVE SUMMARY

December 18, 2018

Ms. Rhonda Thomas, Regulatory Manager
T-Mobile Puerto Rico, LLC
12920 SE 38th St
Bellevue, WA 98006

Dear Ms. Thomas:

DP George & Company, LLC (DPG) audited the compliance of T-Mobile Puerto Rico, LLC (T-Mobile or Beneficiary), Study Area Code (SAC) 639003, using regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. DPG's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope audit. DPG notes that the SAC Name for the audit is listed as AT&T Wireless Services. DPG confirmed that the current owner of the SAC is T-Mobile. Approval to change the SAC Name was denied at the time T-Mobile became the successor-in-interest to the ETC designation.

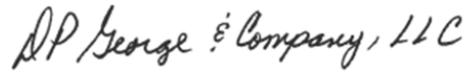
DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable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

Based on the test work performed, our audit 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 FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

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

DP George & Company, LLC
Alexandria, Virginia

cc: Teleshia Delmar, USAC Vice President, Audit and Assurance Division
Radha Sekar, USAC Chief Executive Officer
Michelle Garber, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.404(b) – Form 497 and NLAD Variances. The Beneficiary claimed subscribers on the FCC Form 497 who were not active in NLAD for the same period.	\$2,072	\$2,072
Finding #2: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification and Recertification Documentation. The Beneficiary did not provide documentation to demonstrate certification or recertification of subscribers claimed in the audit period.	\$0	\$0
Finding #3: 47 C.F.R. § 54.416(b) – Inaccurate Form 555 Reporting. The results reported on the January Form 555 were not supported by the Beneficiary’s detailed recertification results.	\$0	\$0
Total Net Monetary Effect	\$2,072	\$2,072

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

Support Type	Number of Subscribers	Amount of Support
Lifeline	5,174	\$47,859.50

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 Puerto Rico.

PROCEDURES

DPG performed the following procedures:

A. Form 497

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

B. Certification and Recertification Process

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

C. Subscriber Listing

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

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

D. Lifeline Subscriber Discounts

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

E. Independent Economic Households

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

F. Form 555

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

DETAILED AUDIT FINDINGS

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

CONDITION

DPG examined the Beneficiary's subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Beneficiary reported the correct number of qualifying subscribers on the Form 497. Using the enrollment and de-enrollment dates in NLAD, DPG compared the subscribers who were identified as active in NLAD during the same time period used by the Beneficiary to determine the number of subscribers to report on its Form 497. DPG noted 224 subscribers claimed on the Form 497 and not active in NLAD as of the audit period.

Additionally, DPG identified 242 subscribers reflected in NLAD but not claimed on the audit period Form 497 and requested explanations to determine if any of these subscribers had been de-enrolled but not removed in NLAD. The Beneficiary indicated that these subscribers should be removed in NLAD.

Because the Beneficiary is required to transmit requisite information for each new and existing Lifeline subscriber to NLAD (including de-enrollments within one business day of de-enrollment and updates within 10 business days), 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 requirements to be eligible for Lifeline Program support and for whom the Beneficiary provides Lifeline service.

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.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	\$2,072	\$2,072

DPG calculated the monetary effect by multiplying the 224 Non-Tribal subscribers claimed on the Form 497 and not active in NLAD by the Non-Tribal support amount requested on the March 2016 Form 497 (\$9.25) and rounded to the nearest whole dollar.

There is no monetary effect for the 242 subscribers listed in NLAD and not on the subscriber listing because these subscribers were not claimed on the Form 497. However, not de-enrolling customers in NLAD within the required timeframes creates the potential for subscribers to be flagged for duplicate resolution unnecessarily.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount recommended in the Effect section above. DPG also recommends that the Beneficiary implement an adequate system to collect, track, and report the correct number of subscribers on the Form 497 and transmit and/or update its new and existing subscriber data in NLAD, and maintain adequate documentation to demonstrate compliance with the Rules.

BENEFICIARY RESPONSE

T-Mobile does not oppose the recovery of \$2,072 in Lifeline support based upon the variance between the NLAD and the Form 497 emanating from systematic and processing errors. T-Mobile has robust policies and processes in place to (i) collect, track, and report eligible subscribers on the Form 497, (ii) transmit and update subscriber data in NLAD and (iii) maintain adequate documentation to demonstrate compliance with FCC rules. Notwithstanding these policies, procedures and other internal controls, unique circumstances related to the implementation of the NLAD in Puerto Rico (*e.g., late-January 2016 migration of subscribers into NLAD for Puerto Rico, unique Puerto Rican names and addresses, transactions not allowed during the pendency of the duplicate resolution processes, etc.*) presented unique challenges for T-Mobile that resulted in the variances between the NLAD and the Form 497. While these variances were not detected in time to cure them in the original Form 497 filing, T-Mobile discovered the variances shortly thereafter and took steps to remediate both NLAD and the Form 497 filing in question; unfortunately, subsequent attempts to remedy the variance on the Form 497 were not successful.

Similar errors could not occur today based on USAC's implementation of the Lifeline Claims System or "LCS" (the replacement reporting mechanism for the Form 497). Nonetheless, T-Mobile continuously updates and revises its policies, procedures and internal controls to maintain compliance with FCC Rules. Based upon the facts and circumstances of this Finding, T-Mobile has, as recommended, implemented further changes to accurately collect, track, and report the correct number of subscribers reported in LCS, transmit and/or update its new and existing subscriber data in NLAD, and maintain adequate documentation to demonstrate compliance with the Rules, even when situations outside of its control arise

Finding #2: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification and Recertification Documentation

CONDITION

DPG requested certification documentation for a sample of 6 subscribers and recertification documentation for a sample of 39 subscribers to determine whether subscribers were eligible to receive support. The Beneficiary did not provide documentation for four of the subscribers requested. DPG also noted that documentation provided for six subscribers was dated prior to 2015 and that new documentation should have been obtained prior to the March 2016 audit period to confirm continued eligibility for the subscribers. The Beneficiary indicated that it received a monthly file from the Department of the Family's Nutrition Assistance Program ("PAN") identifying eligible consumers. The Beneficiary updated its internal records for changes in eligibility but did not have a process at the time for documenting annual recertification. Without current subscriber

certification or recertification documentation for these subscribers, DPG cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of subscriber certification and recertification documentation.

EFFECT

The monetary effect for the ten subscribers identified by our audit is considered *de minimis*. However, the underlying cause must be addressed in order to ensure that proper documentation is maintained to support the initial and continued eligibility of subscribers receiving Lifeline program support.

RECOMMENDATION

DPG recommends that the Beneficiary implement policies and procedures to establish a documentation retention process that allows it to respond fully to audit documentation requests in compliance with the Rules.

BENEFICIARY RESPONSE

T-Mobile has document retention policies and procedures in place consistent with all applicable requirements, enabling the Company to demonstrate compliance with Lifeline rules and respond to requests for documentation. Notwithstanding its document retention policies and procedures, T-Mobile and other carriers serving Puerto Rico have faced unprecedented challenges brought about by the devastating hurricanes of 2017, which caused catastrophic damage to the infrastructure of the Puerto Rico and to the infrastructure of companies, like T-Mobile. The disruption to business operations caused by the hurricanes and changes to the Lifeline program in Puerto Rico contributed to T-Mobile's inability to retrieve a "de minimis" number of eligibility documents.

T-Mobile recognizes the importance of document retention and, based upon its experiences in Puerto Rico, the Company has updated and revised its policies, procedures and internal controls to ensure that all documents of eligibility are stored and readily available, and to the extent possible, it maintains both hard copies and electronic versions.

Finding #3: 47 C.F.R. § 54.416(b) – Inaccurate Form 555 Reporting

CONDITION

DPG noted when reviewing the Form 555 submission that only the number of subscribers claimed on the February 2015 Form 497 was reported on Block A of the form and that all other Blocks contained zeros. DPG requested the Beneficiary's detailed recertification results to determine whether the Beneficiary could substantiate the number of subscribers reported on the Form 555 due in January 2016. The Beneficiary indicated that it updated its records monthly using the eligibility information received in the monthly PAN database file. As a result, the Beneficiary did not establish formal procedures to recertify subscribers annually and its system was not configured to capture information in the manner necessary to report the recertification results on the Form 555.

The Beneficiary also initialed Certification B of the form indicating that it relied on a state database to perform recertification but did not list the name of the database and initialed Certification C indicating that it did not claim low income support for any Lifeline subscribers in February but listed 7,000 subscribers as claimed in Block A of the form.

The Beneficiary must report the correct number of subscribers on the Form 555 and retain adequate documentation to support the number of subscribers reported.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct number of subscribers on the Form 555.

EFFECT

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

RECOMMENDATION

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

BENEFICIARY RESPONSE

T-Mobile has filed the Form 555 for Puerto Rico consistent with the unique method of determining initial eligibility and recertifying eligibility for the Lifeline program. This unique method was established prior to the advent of Form 555 in compliance with the FCC Rules for use of state databases. Based upon the use of the state database for recertifying customer eligibility for Lifeline service, T-Mobile completed Form 555, which, during the audit period, included only the information in Block A. T-Mobile had coordinated with USAC on this method for completing Form 555 for Puerto Rico and was never informed it was not acceptable. It is important to note that the issues raised by the Auditor did not impact T-Mobile's ability to properly perform enrollment and de-enrollment of Lifeline subscribers and properly report Lifeline subscribers in the Form 497.

Nevertheless, T-Mobile recognizes the importance of accurately completing the Form 555 and performing all of the necessary steps to document the recertification of customer eligibility for Lifeline service. Similar errors could not occur today based on the 2018 implementation of an online portal for carriers to file the Form 555. Accordingly, T-Mobile revised its processes, policies and procedures to address the new system, which also address the concern raised in this Finding.

DPG RESPONSE

As noted in the Condition section above, only Block A of the Form 555 reviewed for the audit period contained a subscriber count. Block K of the form which identifies the number of subscribers whose eligibility was reviewed

by ETC access to an eligibility database reflected a subscriber count of zero. For this reason, DPG's position on this finding remains unchanged.

CRITERIA

	Criteria	Description
#1, #2	47 C.F.R. § 54.407(a) (2014)	“Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier, based on the number of actual qualifying low-income consumers it serves.”
#1	47 C.F.R. § 54.404(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. § 54.407(e) (2015)	“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.”
#1, #2	47 C.F.R. § 54.417(a) (2015)	“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 [47 C.F.R.] §§ 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.”
#2	47 C.F.R. § 54.410(b)(1)(i) (2015)	“ <i>Initial income-based eligibility determination</i> . (1) Except where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline or using the income-based

	Criteria	Description
		eligibility criteria provided for in [47 C.F.R.] §54.409(a)(1) or (a)(3) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section....”
#2	47 C.F.R. § 54.410(c)(1)(i) (2015)	<p>“<i>Initial program-based eligibility determination.</i> (1) Except in states where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in [47 C.F.R.] §54.409(a)(2), (a)(3) or (b), an eligible telecommunications carrier:</p> <p>(i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section....”</p>
#2	47 C.F.R. § 54.410(f)(1), (2)(iii) (2015)	<p>“<i>Annual eligibility re-certification process.</i></p> <p>(1) All eligible telecommunications carriers must annually re-certify all subscribers except for subscribers in states where a state Lifeline administrator or other state agency is responsible for re-certification of subscribers’ Lifeline eligibility.</p> <p>(2) In order to re-certify a subscriber’s eligibility, an eligible telecommunications carrier must confirm a subscriber’s current eligibility to receive Lifeline by: ...</p> <p>(iii) Obtaining a signed certification from the subscriber that meets the certification requirements in paragraph (d) of this section.”</p>
#3	47 C.F.R. § 54.416(b) (2015)	“All eligible telecommunications carriers must annually provide the results of their re-certification efforts, performed pursuant to [47 C.F.R.] § 54.410(f), to the Commission and the Administrator.”
#3	Annual Lifeline Eligible Telecommunications Carrier Certification Form Instructions, FCC Form 555, OMB 3060-0819, at 3-5 (Nov. 2014)	<p>“<u>Block C</u></p> <p>Report the number of Lifeline subscribers for which the ETC claimed Lifeline support on its February FCC Form 497 for the current Form 555 calendar year that were <i>initially</i> enrolled in Lifeline in that year....</p> <p><u>Block D</u></p> <p>Report the number of subscribers who de-enrolled from Lifeline prior to the ETC’s attempt to recertify continued eligibility, either directly, through the use of a third-party administrator (such as USAC), by a state administrator, or by access to a state eligibility database. This number should include all subscribers who de-enrolled for any reason, including those subscribers that discontinued Lifeline service with the ETC on their own initiative and those that the ETC de-enrolled from Lifeline (for example, those de-enrolled for non-usage)....</p> <p><u>Block E</u></p> <p>Report the number of subscribers the ETC was responsible for recertifying for the current Form 555 calendar year....</p> <p><u>Block F</u></p>

	Criteria	Description
		<p>Report the number of Lifeline subscribers the ETC contacted directly to obtain recertification of eligibility....</p> <p><u>Block G</u> Report the number of Lifeline subscribers that responded to the ETC's request to recertify their eligibility for Lifeline....</p> <p><u>Block H</u> Report the number of subscribers who did not respond to the ETC's request to recertify eligibility. This number should equal the number reported in Block F minus the number reported in Block G....</p> <p><u>Block J</u> Report the number of subscribers that have been, or are scheduled to be, de-enrolled as a result of non-response or ineligibility from the ETC recertification effort. A subscriber that fails to recertify continued eligibility must be de-enrolled from Lifeline pursuant to Sections 54.410(f)(5) and 54.405(e)(3) of the Lifeline rules. <i>See</i> 47 C.F.R. §§ 54.410(f)(5), 54.405(e)(3)....</p> <p><u>Block K</u> Report the number of consumers for which the ETC relied on a source other than direct contact with the subscriber to confirm continued eligibility. An ETC can rely on a state database to confirm a subscriber continued to be eligible for Lifeline. An ETC can also rely on a Lifeline state administrator to confirm consumer eligibility or on USAC in those instances where the ETC has elected USAC to perform the recertification. An ETC must report the number of subscribers for which it relied on any of these methods in Block K....</p> <p><u>Block L</u> Report the number of subscribers that were de-enrolled, or are scheduled to be de-enrolled, as a result of ineligibility found via confirmation through a state database or a Lifeline administrator. As stated above, if any of these subscribers are subsequently contacted directly by the ETC in an attempt to recertify eligibility, those subscribers should be listed in Blocks F through J as appropriate and not in Block L....</p> <p><u>Block M</u> Enter the number of subscribers that the ETC attempted to recertify directly or through an administrator, access to a database or by USAC by calculating the sum of the numbers entered in Block F and Block K....</p> <p><u>Block N</u> Enter the number of subscribers de-enrolled or scheduled to be de-enrolled as a result of non-response or ineligibility. This number should equal the sum of the numbers entered in Block J and Block L.”</p>



Telrite Corporation

Limited Scope Audit on Compliance with the Federal Universal Service Fund
Lifeline Support Mechanism Rules
USAC Audit No. LI2017BE049

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EXECUTIVE SUMMARY

October 19, 2018

Mr. Brian Lisle
Telrite Corporation
4113 Monticello Street
Covington, GA 30014

Dear Mr. Lisle,

DP George & Company, LLC (DPG) audited the compliance of Telrite Corporation (Beneficiary), study area code 639010, using regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. DPG's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope audit.

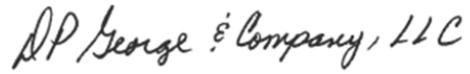
DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable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

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

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

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

Sincerely,

A handwritten signature in black ink that reads "DP George & Company, LLC". The signature is written in a cursive, slightly slanted style.

DP George & Company, LLC
Alexandria, Virginia

cc: Teleshia Delmar, USAC Vice President, Audit and Assurance Division
Radha Sekar, USAC Chief Executive Officer
Michelle Garber, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.404(b) – Form 497 and NLAD Variance. The Beneficiary claimed subscribers on the audit period subscriber listing who were not active in NLAD.	\$2,405	\$2,405
Total Net Monetary Effect	\$2,405	\$2,405

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 December 2016 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	238,835	\$2,209,224

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 Puerto Rico.

PROCEDURES

DPG performed the following procedures:

A. Form 497

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

B. Certification and Recertification Process

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

C. Subscriber Listing

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

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

D. Lifeline Subscriber Discounts

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

E. Independent Economic Households

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

F. Form 555

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

G. Non-Usage Process

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

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

CONDITION

DPG examined the Beneficiary’s subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Beneficiary reported the correct number of qualifying subscribers on the Form 497. Using the enrollment and de-enrollment dates in NLAD, DPG compared the subscribers who were identified as active in NLAD during the same time period used by the Beneficiary to determine the number of subscribers to report on its Form 497. DPG noted 260 subscribers claimed on the Form 497 and not active in NLAD as of the audit period. Of these subscribers, 145 represented subscribers in NLAD under dispute resolution as of December 31, 2016; 114 represented subscribers who were “Transferred Out” in NLAD prior to January 1, 2017; and one subscriber was not recorded in NLAD until January 12, 2017.

The Beneficiary indicated that for subscribers in dispute resolution who were not listed in NLAD as of December 2016, the subscribers were claimed because it had complied with the rules at 47 C.F.R. § 54.405(b) which require the Beneficiary to “query the database to determine whether a prospective subscriber who has executed a certification pursuant to §54.410(d) is currently receiving a Lifeline service from another eligible telecommunications carrier; and whether anyone else living at the prospective subscriber's residential address is currently receiving a Lifeline service.” The ETC must also “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.”

The rules at 47 C.F.R. § 54.405(b)(2) also state that if the Database (NLAD) indicates that a prospective subscriber is already receiving a Lifeline service, the eligible telecommunications carrier must not provide and shall not seek or receive Lifeline reimbursement for that subscriber. Until the failed elements associated with the dispute resolution are resolved, a determination cannot be made regarding whether the subscriber is already receiving a Lifeline service. Therefore, the subscriber should not be claimed for reimbursement.

The Beneficiary indicated that the 114 subscribers identified as “Transferred Out” in NLAD prior to December 31, 2016 were claimed on the Form 497 because they were within the 5 day window specified at 47 C.F.R. § 54.405(e)(2). The rules at 47 C.F.R. § 54.405(e)(2) apply to subscribers receiving duplicative support and not to subscribers whose benefit is being transferred. The transfer out date established in NLAD represents the date a subscriber must be removed from the Beneficiary’s subscriber listing and is no longer eligible to be claimed by the Beneficiary.

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 requirements to be eligible for Lifeline Program support and for whom the Beneficiary provides Lifeline service.

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.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	\$2,405	\$2,405

DPG calculated the monetary effect by multiplying the 260 subscribers claimed on the Form 497 and not active in NLAD by the support amount requested on the December 2016 Form 497 (\$9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount recommended in the Effect section above. DPG also recommends that the Beneficiary implement an adequate system to collect, track, and report the correct number of subscribers on the Form 497.

BENEFICIARY RESPONSE

In response to the Auditors claims, Telrite not only reiterates its previous response but finds no legal grounds for the statements made by the Auditor about NLAD “rules” which are both misapplied and others that are not a Commission Lifeline rule defined in 47 C.F.R. §54.400 to §54.423.

For subscribers in dispute resolution who the Auditors claim were not listed in NLAD as of December 2016, Telrite complied with the rules at 47 C.F.R. §54.404(b), which require the Beneficiary to “query the database to determine whether a prospective subscriber who has executed a certification pursuant to §54.410(d) is currently receiving a Lifeline service from another eligible telecommunications carrier; and whether anyone else living at the prospective subscriber's residential address is currently receiving a Lifeline service.” The ETC must also “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.”

The Auditor claims, “The rules at 47 C.F.R. § 54.405(b)(2) also state that if the Database (NLAD) indicates that a prospective subscriber is already receiving a Lifeline service, the eligible telecommunications carrier must not provide and shall not seek or receive Lifeline reimbursement for that subscriber. Until the failed elements associated with the dispute resolution are resolved, a determination cannot be made regarding whether the subscriber is already receiving a Lifeline service. Therefore, the subscriber should not be claimed for reimbursement.” First, a correction is required as there is no §54.405(b)(2);

I believe the Auditor is referring to §54.404(b)(2). Second, there is no verbiage in the Commission's Lifeline rules regarding Dispute Resolutions. The following language is authored by the Auditor and not a Commission rule, "Until the failed elements associated with the dispute resolution are resolved, a determination cannot be made regarding whether the subscriber is already receiving a Lifeline service." Regarding the rules defined in § 54.404(b)(2), in order to submit a Dispute Resolution, Telrite was required to complete duplicate verification(s) in NLAD. At the time the Dispute Resolutions were submitted, the NLAD database already determined that these were not duplicate subscribers. In response to the Auditors opinion that "Until the failed elements associated with the dispute resolution are resolved, a determination cannot be made regarding whether the subscriber is already receiving a Lifeline service", the failed elements of the Dispute Resolution were resolved by Telrite collecting and reviewing valid documentation verifying each subscribers identity and/or address (as applicable) and certifying to such in its submission. After submission of a Dispute Resolution, the USAC process, if it can be called a process, is an arbitrary manual approval or denial by a USAC employee without any review of subscriber documentation. By means of the practice and Dispute Resolution process, all failures have been resolved by the ETC at the time the Dispute Resolution is submitted.

The Auditor states "The transfer out date established in NLAD represents the date a subscriber must be removed from the Beneficiary's subscriber listing and is no longer eligible to be claimed by the Beneficiary." However, this is not a Commission Lifeline rule and Telrite is unaware of any written or publicly published USAC rule supporting this claim. Without evidence to support the Auditors claim, Telrite cannot be found non-compliant with a rule that doesn't exist. Telrite fully complies with the Commissions Lifeline de-enrollment rules in §54.405(e). Telrite de-enrolled all 114 subscribers within five business days of the notification from NLAD that the subscriber, or their household, was receiving service from another Lifeline provider.

Lastly, the Auditor states "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." However, this again is not a Commission Lifeline rule. Additionally, as a USAC rule, this was not effective for the Audit period of December 2016. The USAC rule was effective with the August 2017 data month and after. This is published in both the Lifeline Monthly Webinar from 8/9/2017 (Appendix A) and published in a Lifeline Program notice released 8/29/2017 (Appendix B).

DPG RESPONSE

With regard to the 145 subscribers in dispute resolution and therefore not listed as active in NLAD as of the December 2016 audit period, we confirm that the reference should be to §54.404(b)(2) instead of §54.405(b)(2). We disagree that the Beneficiary's transmission of data to the NLAD database is a sufficient basis alone on which to claim these subscribers. We maintain that the verification process, including the dispute resolution process, must be completed in order to verify that the subscriber is eligible. As further support, we refer to Paragraph 201 of the 2012 Lifeline Reform order which states:

"Because of the benefits and limited costs of identification verification, we conclude that the database must have the capability of performing an identification verification check when an ETC or other party submits a query to the database about a potential consumer. In response to the query, the database must indicate

whether the subscriber's identity can be verified, and if not, provide error codes to indicate why the identity could not be verified. To ensure that subscribers are not mistakenly denied benefits, USAC must establish a process, as part of the resolution process described below, so that those consumers who failed the identification verification are able to either provide additional information to verify their identity, or correct errors in the information utilized to validate the subscriber's identification¹. As noted above, the database and identification verification process must be able to accommodate consumer addresses that are not recognized by the U.S. Postal Service (e.g., residences on Tribal lands). We direct USAC to facilitate this process by publishing its processes and rules used to verify subscriber identification. We anticipate that these processes will involve both automated processes and well as manual fall-out processes in those small number of cases where an automated process cannot verify a subscriber's identification. **ETCs may not receive reimbursement for those subscribers whose identities could not be verified through the identification verification process.** "

Until the Beneficiary receives final confirmation through NLAD that the subscriber has been verified, it is not possible to know with certainty that the subscriber is eligible. In fact, we noted that in five of the above instances, the subscriber was rejected by the dispute resolution process and no re-submission of the subscriber's information was made by the Beneficiary to verify subscriber eligibility. Based on the 2012 Lifeline Reform Order and the Rules established at 47 C.F.R. § 54.404(b) as of the audit period, we believe it is reasonable to expect that a subscriber will not be claimed until a valid and verified submission of the subscriber's information is completed through NLAD and an active NLAD record is established for the subscriber. For these reasons, we maintain our position that the 145 subscribers under dispute resolution and not active as of the audit period in NLAD did not meet all of the requirements to receive Lifeline Program support.

With regard to the 114 subscribers identified as Transferred Out and therefore not listed as active in NLAD as of the December 2016 audit period, we disagree that the de-enrollment rule at 47 C.F.R. §54.405(e)(2) specific to "duplicative support" applies to the transfer of subscriber support between ETCs. The rules at 47 C.F.R. §54.405(e)(2) are specific to situations where the same subscriber or household is already receiving multiple benefits. In the case of a transfer, the subscriber has acknowledged that they intend to transfer the same benefit from one provider to another and the intent of the "TRANSFEROUT" and "TRANSFERIN" dates within NLAD is to establish a common transition date. As further support, we refer to paragraph 242 of the 2015 Lifeline Order which states:

"Following the Lifeline Reform Order, USAC encouraged ETCs to select a single "snapshot date" during the month (e.g., the 15th of every month) to determine the number of eligible consumers for which it would seek reimbursement for that month. As a result, the snapshot dates vary from ETC to ETC. We now decide that ETCs should all use the same snapshot date to determine the number of Lifeline subscribers served in a

¹ Low-income consumers and ETCs seeking Lifeline benefits must comply with all statutory, regulatory and procedural requirements in order to obtain the discount. Denial of this support does not violate an ETC's or a consumer's due process rights and does not deprive the ETCs or consumer of a protected property interest absent a legitimate claim of entitlement to the Lifeline benefit. See *Town of Castle Rock v. Gonzales*, 545 U.S. 748, 756 (2005); see also *Board of Regents v. Roth*, 408 U.S. 564, 577 (1972) ("To have a property interest in a benefit, a person clearly must have more than an abstract need or desire for it. He must have more than a unilateral expectation of it. He must, instead, have a legitimate claim of entitlement to it.").

given month and report that month to USAC on the FCC Form 497. We conclude that a snapshot date will produce substantial benefits. **First, a uniform snapshot date will reduce the risk that two ETCs receive full support for providing service for the same subscriber in the same calendar month.** Second, a uniform snapshot date will make it easier for USAC to adopt uniform audit procedures. Third, as described in the Second FNPRM section above, a uniform snapshot date will help ease the transition to a reimbursement process that calculates support based on the number of subscribers contained in the NLAD. Given the industry support and comment around the establishment of a snapshot date, compliance with our rules will be high and the administrative costs associated will be low. To promote efficiency and ease of administration, we revise section 54.407 and direct ETCs to take a snapshot of their subscribers on the first day of the month.”

It is clear in the 2015 Lifeline Reform Order language that the FCC does not intend for two ETCs to receive full support for providing service to the same subscriber in the same calendar month. Applying the five day disconnect period established at 47 C.F.R. §54.405(e)(2) to transferred subscribers is not consistent with the 2015 Lifeline Reform Order language. For these reasons, we maintain our position that the 114 subscribers “Transferred Out” prior to the snapshot date for the audit period and not active as of the audit period in NLAD are not eligible for Lifeline Program support.

The implementation dates for the dispute resolution and monthly snapshot processes established by the 2012 and 2015 Lifeline Reform Orders were effective prior to the December 2016 audit period. As indicated in our response, the 2012 Lifeline Reform Order established a reasonable expectation that ETCs must complete the verification process and establish a subscriber as active in NLAD in order to claim reimbursement for the subscriber. Similarly, the 2015 Lifeline Reform Order established that two ETCs should not receive full support for providing service for the same subscriber in the same calendar month. These orders provide a sufficient basis for the stated expectation that “subscribers claimed on the Form 497 must not exceed the number of subscribers the Beneficiary identified as active in NLAD for the same period” and that “the Beneficiary must also report the actual number of subscribers on the Form 497 based on subscribers who have met all requirements to be eligible for Lifeline Program support and for whom the Beneficiary provides Lifeline service.”

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.407(a) (2016)	“Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income consumers it serves directly as of the first day of the month.”
#1	47 C.F.R. § 54.404(b)(2),(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>(2) If the Database indicates that a prospective subscriber, who is not seeking to port his or her telephone number, is currently receiving a Lifeline service, the eligible telecommunications carrier must not provide and shall not seek or receive Lifeline reimbursement for that subscriber. . . .</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	47 C.F.R. § 54.407(e) (2016)	“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.”
#1	47 C.F.R. § 54.417(a) (2016)	“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 ... [47 C.F.R.] § 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.”

BTI Communications Inc.

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2017LR004

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EXECUTIVE SUMMARY

August 10, 2018

Zaaci Lichtenstein
BTI Communications Inc.
1344 40th Street
Brooklyn, New York, 11218

Dear Zaaci Lichtenstein:

The Universal Service Administrative Company (USAC or Administrator) Internal Audit Division (IAD) audited the compliance of BTI Communications Inc. (Beneficiary), study area code 159021, 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. IAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

IAD 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 IAD 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 IAD'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 FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne Scott", is written over a printed name and title. The signature is stylized and cursive.

Wayne Scott
Vice President, Internal Audit 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 Beneficiary did not enroll subscribers in the National Lifeline Accountability Database (NLAD).	\$40,635	\$0	\$40,635
Finding #2: 47 C.F.R. § 54.410(d) - Improper Certification and Recertification Documentation Disclosures. The Beneficiary's subscriber certification documentation omitted the required disclosures.	\$537	\$0	\$537
Finding #3: 47 C.F.R. § 54.407(a) - Inaccurate Form 497 Reporting. The Beneficiary did not report the correct number of qualifying subscribers on the Form 497.	\$139	\$93	\$46
Total	\$41,311	\$93	\$41,218

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 November 2016 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	5,048	\$46,694

¹ The amounts related to overlapping exceptions (*i.e.*, exceptions that are included in two or more findings) are not included in the amounts to be recovered. However, if the Beneficiary properly and timely requests an appeal and the appeal is granted, USAC may pursue recovery efforts for any overlapping exception(s) that were not resolved by an appeal decision.

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 New York.

PROCEDURES

IAD performed the following procedures:

A. Form 497

IAD 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

IAD 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. IAD 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

IAD 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

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

E. Form 555

IAD 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

IAD obtained and examined the Beneficiary’s detailed subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Beneficiary reported the correct number of qualifying subscribers on the Form 497. Using the enrollment and de-enrollment dates in NLAD, IAD compared the subscribers who were identified as active in NLAD during the same time period that was used by the Beneficiary to determine the number of subscribers to report on its Form 497. IAD noted the following differences between NLAD and the Beneficiary’s Form 497:

	No. of Subscribers
Form 497	5,048
NLAD	655
Difference	4,393

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 the subscribers who have met all of 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, IAD 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 did not have the internal resources to handle the regulatory workload of updating the NLAD with current subscriber counts.³

EFFECT

Support Type	Monetary Effect & Recommended Recovery
Lifeline	\$40,635

RECOMMENDATION

IAD recommends USAC management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement an adequate system to collect, track, and report the correct number of subscribers and transmit and/or update its new and existing subscriber data in NLAD, and

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

³ Beneficiary responses to audit inquiries, received Mar. 29, 2018.

maintain adequate documentation to demonstrate compliance with the Rules. IAD 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

BTI Communications Inc., d/b/a Telzeq Communications ("Telzeq"), referred [sic] to above as the Beneficiary [sic], is disappointed in this finding. Telzeq has a strong appreciation and understands the importance of the FCC's rules. We do not dispute that many of our subscribers [sic] records did not make it into the NLAD. However, Telzeq contends that in its [sic] customer application [sic] process all subscribers were reviewed and met the FCC's Lifeline eligibility [sic] criteria, and that customers that were claimed on the FCC Form 497 were indeed eligible [sic] subscribers. Telzeq would not provide Lifeline credits or apply for reimbursement for subscribers without a signed application attesting to their eligibility [sic] or without qualifying supporting documentation such as a Medicaid card. As described above in the IAD's description, Telzeq is a small firm that relied upon the experience and expertise of an external consulting firm to handle [sic] the administrative functions of uploading the eligible applicants [sic] into NLAD. Unfortunately this firm failed to fulfill the terms of the agreement. Immediately upon discovering this issue, Telzeq worked diligently [sic] to upload the subscribers into the NLAD system. Of the 4,379 subscribers that were not in NLAD but claimed on the FCC form 497, 4,068 were successfully [sic] uploaded without issue. Of the remaining [sic] 311 subscribers that were not enrolled, 182 of them were no longer subscribers leaving 129 that were not able to be enrolled in NLAD for a number of reasons. Based on this, Telzeq contends that there was minimal opportunity for duplicative recovery of Lifeline [sic] Support benefits for these subscribers, and that a finding in excess of \$40,000 is excessive since the vast majority of the subscribers were indeed eligible. This was an unfortunate administrative error that has been corrected.

IAD RESPONSE

The Beneficiary states in its response that "customers that were claimed on the FCC Form 497 were indeed eligible subscribers." The Beneficiary must transmit data into NLAD for each new and existing Lifeline subscriber. While the Beneficiary asserts that its subscribers met all of the requirements to be eligible for Lifeline Program, the eligibility of the subscriber is also dependent upon whether the subscriber's data was transmitted into NLAD. The Beneficiary acknowledges that "many of our subscriber[']s records did not make it into the NLAD." As noted in the Condition section above, 4,393 subscribers were not enrolled in NLAD as of the audit period; therefore, our position on the finding remains unchanged.

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

CONDITION

IAD obtained and examined certification documentation for a sample of 58 subscribers to determine whether the documentation contained all of the required disclosures. IAD 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)	58
“Only one Lifeline service is available per household” 47 C.F.R. § 54.410(d)(1)(ii)	58
“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)	58
“A household is not permitted to receive Lifeline benefits from multiple providers” 47 C.F.R. § 54.410(d)(1)(iv)	58
“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)	58
“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)	58
“The subscriber's full residential address” 47 C.F.R. § 54.410(d)(2)(ii)	51
“Whether the subscriber's residential address is permanent or temporary” 47 C.F.R. § 54.410(d)(2)(iii)	58
“The subscriber's billing address, if different from the subscriber's residential address” 47 C.F.R. § 54.410(d)(2)(iv)	58
“[R]equire each prospective subscriber to certify, under penalty of perjury, that:” 47 C.F.R. § 54.410(d)(3)	7
“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)	58
“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)	7
“If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days” 47 C.F.R. § 54.410(d)(3)(iv)	7
“The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service” 47 C.F.R. § 54.410(d)(3)(vi)	7
“The information contained in the subscriber's certification form is	7

true and correct to the best of his or her knowledge” 47 C.F.R. § 54.410(d)(3)(vii)	
“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)(viii)	58
“The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to §54.405(e)(4)” 47 C.F.R. § 54.410(d)(3)(ix)	7
Total No. of Affected Subscribers⁴	58

The Beneficiary’s subscriber certification documentation did not contain all of the required disclosures. In addition, the subscriber certification forms did not include an eligibility program (Federal Public Housing Assistance).⁵ 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, IAD cannot conclude that these subscribers were eligible to receive Lifeline Program support.⁶

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the required disclosures. The Beneficiary indicated that an external vendor was responsible for the incompleteness of the certification forms.⁷

EFFECT

Support Type	Monetary Effect & Recommended Recovery
Lifeline	\$537

RECOMMENDATION

IAD 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 and obtains the proper certifications from its subscribers. IAD 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>.

⁴ Documentation for each subscriber certification may omit multiple disclosures. Therefore, one certification may be included in multiple rows in the table above.

⁵ See 47 C.F.R. § 54.409(a)(2).

⁶ See 47 C.F.R. § 54.407(a).

⁷ Beneficiary responses to audit inquiries, received March 29, 2018.

BENEFICIARY RESPONSE

BTI Communications Inc., d/b/a Telzeq Communications (“Telzeq”), referred [sic] to above as the Beneficiary [sic], does not dispute this finding. Telzeq relied upon the knowledge and expertise of an external consulting [sic] firm to review and verify the completeness of the certifications used. Telzeq does contend that while certain forms did not address all the necessary disclosures, the overall [sic] intent of the form did not deviate from its intended purpose of certifying or recertifying subscribers.

IAD RESPONSE

The Beneficiary states in its response that “the overall[[]] intent of the form did not deviate from its intended purpose of certifying or recertifying subscribers.” However, the Rules require that the necessary disclosures are included on the certification and recertification forms and the subscribers must complete the required certifications. As noted in the Condition section above, the certification forms utilized by the Beneficiary did not contain the required disclosures; therefore, the subscribers did not complete the required certifications. Thus, our position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 54.407(a) – Inaccurate Form 497 Reporting

CONDITION

IAD obtained and examined the Beneficiary’s subscriber listing to determine whether the Beneficiary reported the correct number of qualifying subscribers on the Form 497. IAD identified 6 pairs of duplicate subscribers, 4 subscribers on the listing who certified their initial or continued eligibility subsequent to the audit period, and 5 subscribers whose Lifeline start date was subsequent to the audit period (i.e., audited month).

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.⁸ Because the Beneficiary did not report the correct number of qualifying subscribers on the Form 497, IAD 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. The Beneficiary cited an administrative error and an external vendor for these exceptions.⁹

EFFECT

⁸ See 47 C.F.R. § 54.407(e).

⁹ Beneficiary responses to audit inquiries, Aug. 3 and 4, 2017.

Support Type	Monetary Effect (A)	Overlapping Exceptions (B)	Recommended Recovery¹⁰ (A) - (B)
Lifeline	\$139	\$93	\$46

RECOMMENDATION

IAD recommends USAC management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement an adequate system to collect, track, and report the correct number of qualifying subscribers, and maintain documentation to demonstrate compliance with the Rules. IAD also recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to claiming Lifeline reimbursement.

BENEFICIARY RESPONSE

BTI Communications Inc., d/b/a Telzeq Communications (“Telzeq”), referred [sic] to above as the Beneficiary [sic], disputes this finding. Telzeq has provide USAC and the IAD documentation demonstrating that all but one of these subscribers are not duplicates. The subscribers are unique individuals at unique and different, unique addresses. The one duplicate was an administrative [sic] error that was subsequently corrected.

IAD RESPONSE

In its response, the Beneficiary states that, “all but one of these subscribers are not duplicates. The subscribers are unique individuals at unique and different, unique addresses.” IAD does not concur with the Beneficiary’s statement. IAD obtained and examined the additional documentation provided by the Beneficiary during the audit. The documentation addressed program eligibility but was insufficient to resolve the duplicate Social Security numbers and duplicate dates of birth that were noted. The Beneficiary did not provide any other documentation to demonstrate that these subscribers were eligible during the audit period. Therefore, our position on this finding remains unchanged.

¹⁰ To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$56 overlaps with the recommended recovery in Finding #1 and \$37 overlaps with the recommended recovery in Finding #2.

CRITERIA

Finding	Criteria	Description
#1	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>
#2	47 C.F.R. § 54.410(d) (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> <p>(1) Provide the following information:</p> <p>(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;</p> <p>(ii) Only one Lifeline service is available per household;</p> <p>(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;</p> <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>

Finding	Criteria	Description
		<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) Require each prospective subscriber to provide the following information:</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>(3) Require each prospective subscriber to certify, under penalty of perjury, that:</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>(iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days; ...</p> <p>(vi) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service;</p> <p>(vii) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge;</p> <p>(viii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and</p> <p>(ix) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to §54.405(e)(4)."</p>
#2	47 C.F.R. § 54.409(a)(2) (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>

Finding	Criteria	Description
#3	47 C.F.R. § 54.407(a) (2016)	“(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.”