High Cost and Low Income Committee

Briefing Book

Monday, January 29, 2018

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

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

Universal Service Administrative Company
High Cost & Low Income Committee Quarterly Meeting
Agenda

Monday, January 29, 2018
2:00 p.m. - 4:30 p.m. Eastern Time
USAC Offices
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

OPEN SESSION			*Estimated Duration in Minutes*
Chair	**a1.**	Consent Items (each available for discussion upon request): **A.** Approval of High Cost & Low Income Committee Meeting Minutes of October 23, 2017. **B.** Approval of moving all ***Executive Session*** items into ***Executive Session***.	5
Chair	**a2.**	Recommendation for Election of Committee Chair and Vice Chair (or holdover).	5

HIGH COST OPEN SESSION			*Estimated Duration in Minutes*
Vic	**a3.**	Approval of High Cost Support Mechanism 2nd Quarter 2018 Programmatic Budget and Demand Projection for the January 31, 2018 FCC Filing.	10
Teleshia Delmar	**i1.**	Information on Eight USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Reports – ***Executive Session Option***.	10
Vic	**i2.**	High Cost Support Mechanism Business Update.	20

LOW INCOME OPEN SESSION			*Estimated Duration in Minutes*
Michelle	**a4.**	Approval of Low Income Support Mechanism 2nd Quarter 2018 Programmatic Budget and Demand Projections for the January 31, 2018 FCC Filing.	10
Teleshia Delmar	**i3.**	Information on Five USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports – ***Executive Session Option***.	10
Michelle	**i4.**	Low Income Support Mechanism (Lifeline) Business Update.	30

Low Income Executive Session			*Estimated Duration in Minutes*
Craig	**a5.**	Consideration of Contract Extension & Increase for Solix Printing and Recertification Services – **Confidential** – ***Executive Session Recommended***.	10
Michelle	**a6.**	Approval of 2018 Annual Low Income Support Mechanism Budget – **Confidential** – ***Executive Session Recommended***.	10

High Cost Executive Session			*Estimated Duration in Minutes*
Sammy	**i5.**	High Cost Support Mechanism Business Update Continued – **Confidential** – ***Executive Session Recommended***.	10
Craig	**a7.**	Consideration of a Contract Extension for Mobility Fund Phase I Disbursement Request Verification Services – **Confidential** – ***Executive Session Recommended***.	10
Vic	**a8.**	Approval of 2018 Annual High Cost Support Mechanism Budget – **Confidential** – ***Executive Session Recommended***.	10

Next Scheduled USAC High Cost & Low Income Committee Meeting

Monday, April 23, 2018
2:00 - 4:30 p.m. Eastern Time
USAC Offices, Washington, D.C.

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

ACTION ITEM

Consent Items

Action Requested

The High Cost & Low Income Committee (Committee) is requested to approve the consent items listed below.

Discussion

The Committee is requested to approve the following items using the consent resolutions below:

A. Committee meeting minutes of October 23, 2017 (*see* **Attachment A**).

B. Approval for discussing in ***Executive Session*** agenda items:

(1) **a5 –** Consideration of Contract Extension & Increase for Solix Printing and Recertification Services. USAC management recommends this item be discussed in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration***.

(2) **a6 –** Approval of 2018 Annual Low Income Support Mechanism Budget. USAC management recommends that discussion of this item be conducted in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration***.

(3) **i5 –** High Cost Support Mechanism Business Update Continued. USAC management recommends that discussion of this item be conducted in ***Executive Session*** because it ***includes pre-decisional matters pending before the FCC***.

(4) **a7 –** Consideration of a Contract Extension for Mobility Fund Phase I Disbursement Request Verification Services. USAC management recommends that discussion of this item be conducted in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration***

(5) **a8 –** Approval of 2018 Annual High Cost Support Mechanism Budget. USAC management recommends that discussion of this item be conducted in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration***.

Upon request of a Committee member any one or more of the above items are available for discussion by the Committee.

Recommended USAC High Cost & Low Income Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC High Cost & Low Income Committee hereby approves: (1) the Committee meeting minutes of October 23, 2017, and (2) discussion in ***Executive Session*** of the items noted above.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

HIGH COST & LOW INCOME COMMITTEE MEETING
Monday, October 23, 2017

(DRAFT) MINUTES[1]

The quarterly meeting of the USAC Board of Directors (Board) High Cost & Low Income Committee (Committee) was held at USAC's offices in Washington, D.C. on Monday, October 23, 2017. Mr. Joel Lubin, Committee Chair, called the meeting to order at 2:00 p.m. Eastern Time, with all 11 Committee members present:

Brisé, Ronald – Vice Chair
Feiss, Geoff
Gerst, Matthew
Gillan, Joe
Jacobs, Ellis
Kinser, Cynthia
Lubin, Joel – Chair
Mason, Ken
Robinson, Vickie – Acting Chief Executive Officer, General Counsel and Assistant Secretary
Tinic, Atilla
Wein, Olivia

Other Board members and officers of the corporation present:

Bocher, Bob – Member of the Board
Buzacott, Alan – Member of the Board
Gaither, Victor – Vice President of High Cost
Garber, Michelle – Vice President of Lifeline
Salvator, Charles – Vice President of Finance, Chief Financial Officer and Assistant Treasurer
Scott, Wayne – Vice President of Internal Audit
Sweeney, Mark – Chief Operating Officer
Talbott, Dr. Brian – Member of the Board

[1] Draft resolutions were presented to the Committee prior to the Committee meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

Others present:

NAME	**COMPANY**
Ahmed, Sharmarke	USAC
Anderson, Jarnice	USAC
Bilodeau, Amanda	USAC
Braxton-Johnson, Kianna	USAC
Carpenter, Nikki-Blair	USAC
Delmar, Teleshia	USAC
Duvall, Rashann	FCC
Eltgroth, Deborah	USAC
Gonzales, Veronica	USAC
Guinan, Gabriela Gross	USAC
Hughet, Pam	USAC
Hutchinson, Kyle	USAC
Khan, Sammy	USAC
Kim, James	USAC
Lechter, Jonathan	FCC
Loewus-Deitch, Jonathan	USAC
Mattey, Carol	Mattey Consulting
Nuzzo, Patsy	USAC
O'Brien, Tim	USAC
Sequin, Eric	Solix
Simab, Habib	USAC
Subramaniam, Nathan	USAC
Tessler, Joelle	USAC
Weith, Tim	USAC
Zahid, Farrah	USAC
Zufolo, Jessica	USAC

OPEN SESSION

a1. Consent Items. Mr. Lubin presented this item to the Committee.

A. Approval of Committee meeting minutes of July 24, 2017, August 4, 2017 and October 10, 2017.

B. Approval for discussing in ***Executive Session*** agenda items:

(1) **i5** – Low Income Support Mechanism (Lifeline) Business Update Continued: Forecast of National Verifier Business Process Outsource Costs. USAC management recommends this item be discussed in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration***.

(2) **a4** – Consideration of Contract Increase for Group O Consumer Call Center. USAC management recommends this item be

discussed in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration***.

(3) **i6 –** Information on Preliminary 2018 Annual Low Income Support Mechanism Budget. USAC management recommends this item be discussed in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration***.

(4) **i7 –** High Cost Support Mechanism Business Update Continued. USAC management recommends that this item be discussed in ***Executive Session*** because it ***includes pre-decisional matters pending before the FCC.***

(5) **i8 –** Information on Preliminary 2018 Annual High Cost Support Mechanism Budget. USAC management recommends this item be discussed in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration***.

On a motion duly made and seconded and after discussion, the Committee adopted the following resolution:

RESOLVED, that the USAC High Cost & Low Income Committee hereby approves the Committee meeting minutes of July 24, 2017, August 4, 2017 and October 10, 2017 and discussion in ***Executive Session*** of the items noted above.

a2. Approval of High Cost Support Mechanism 1st Quarter 2018 Programmatic Budget and Demand Projections for the November 2, 2017 FCC Filing. Mr. Gaither presented this item for consideration.

On a motion duly made and seconded and after discussion, the Committee adopted the following resolutions:

RESOLVED, that the USAC High Cost & Low Income Committee approves a 1st Quarter 2018 programmatic operating budget for the High Cost Support Mechanism of $2.92 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee approves a 1st Quarter 2018 programmatic capital budget for the High Cost Support Mechanism of $0.08 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of $3.00 million for High Cost Support Mechanism administrative costs in the required November 2, 2017 filing to the FCC on behalf of the Committee; and

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

i1. Information on Four USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Reports. Ms. Kianna Braxton-Johnson, Supervisor of Internal Audit, presented this item for discussion.

i2. High Cost Support Mechanism Business Update. Mr. Gaither presented this item for discussion. Content included the following: High Cost Network Build-out Plans through 2026; the 2018 Preliminary Budget; High Cost 2018 Support Mechanism Plans; High Cost 2017 Accomplishments, Outreach Plans for the next two quarters, and the High Cost Team's focus for 4th quarter 2017 in support of FCC mandates.

a3. Approval of Low Income Support Mechanism 1st Quarter 2018 Programmatic Budget and Demand Projections for the November 2, 2017 FCC Filing. Ms. Garber presented this item for consideration.

On a motion duly made and seconded and after discussion, the Committee adopted the following resolutions:

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

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

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

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

i3. **Information on Nine USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports.** Ms. Pamela Hughet, Senior Manager of Internal Audit, presented this item for discussion.

i4. **Low Income Support Mechanism (Lifeline) Business Update.** Ms. Garber presented this item for discussion. She provided 3Q2017 highlights, the Low Income support mechanism operational update, program integrity improvements , and updates on program outreach and customer service.

At 3:26 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into ***Executive Session.*** The Committee then recessed and reconvened at 3:36 p.m. Eastern Time in ***Executive Session*** for the purpose of discussing the confidential items listed above.

EXECUTIVE SESSION

i5. **Low Income Support Mechanism (Lifeline) Business Update Continued: Forecast of National Verifier Business Process Outsource Costs.** Ms. Garber presented this time for discussion.

a4. **Consideration of Contract Increase for Group O Consumer Call Center.** Ms. Garber presented this item for consideration.

On a motion duly made and seconded and after discussion, the Committee adopted the following resolutions:

RESOLVED, that the High Cost and Low Income Committee, having reviewed the recommendation of USAC management, hereby authorizes USAC management to increase the existing value of the contract awarded to Group O in the additional amount of $350,000, with a total amended contract value not to exceed $1,450,042, plus applicable sales taxes, through January 26, 2018, subject to required FCC approvals.

i6. **Information on Preliminary 2018 Annual Low Income Support Mechanism Budget**. Ms. Garber presented this item for discussion.

i7. **High Cost Support Mechanism Business Update Continued**. Mr. Sammy Kahn, Director of Program Management, High Cost, presented this item to the Committee for discussion and included major project status updates on High Cost Universal Service Broadband Portal (HUBB), the Mobility Fund Phase II challenge process, Verification of Data (2.0), and the CAF Mapping Initiatives.

i8. **Information on Preliminary 2018 Annual High Cost Support Mechanism Budget.** Mr. Gaither presented this item to the Committee for discussion.

At 4:35 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of ***Executive Session*** and immediately reconvened in ***Open Session***, at which time Mr. Lubin reported that in ***Executive Session***, the Committee took action on item a4 and discussed items i5, i6, i7, and i8. On a motion duly made and seconded, the Committee adjourned at 4:35 p.m. Eastern Time.

/s/ Ellis Jacobs
Secretary

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

ACTION ITEM

Recommendation for Election of Committee Chair and Vice Chair

Action Requested

The USAC High Cost & Low Income (Committee) is taking action to bring its Chair and Vice Chair nominations for consideration by the full Board of Directors (Board) at the Board meeting to be held on January 30, 2018.

Discussion

The pertinent resolution related to the election of committee chair and vice chair positions was adopted by the Board on January 25, 2000 and reads as follows:

> **RESOLVED**, That the USAC Board of Directors accepts the recommendations of the USAC Nominating Committee that: (1) in addition to the annual election of officers, all Committee chairs and vice chairs shall also be elected annually; (2) the first election for Committee chairs and vice chairs shall occur at the election of officers at the January 2001 Board of Directors meeting; (3) there shall be no term limits imposed on officer and Committee chair and vice-chair positions; and (4) there shall be no automatic succession of positions.…[1]

On January 31, 2017, the Board elected Joel Lubin as Chair and Joe Gillan as Vice Chair of the High Cost & Low Income Committee.

At their January 29, 2018 quarterly meetings, each committee of the Board (including the Audit Committee and the programmatic committees) will nominate Board members to serve as chair and vice chair of their respective committees. Those recommendations will be submitted to the Board at the Board meeting to be held on January 30, 2018.

Recommended USAC High Cost & Low Income Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC High Cost & Low Income Committee recommends that the USAC Board of Directors elect ____________________

[1] USAC Board of Directors Meeting Minutes, at 4 (Jan. 25, 2000), *available at* http://usac.org/about/about/leadership/board-minutes/bod.aspx.

as Chair and __________________ as Vice Chair of the Committee. The term for each position begins immediately upon the election to such position by the Board and ends at such time as the Chair or Vice Chair (as the case may be): (i) is replaced by a successor selected by the Board, (ii) resigns from the Committee or the Board, (iii) is removed by resolution of the Board, or (iv) is no longer a member of the Board (whichever comes first).

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

ACTION ITEM

Approval of High Cost Support Mechanism
2nd Quarter 2018 Programmatic Budget and
Demand Projection for the January 31, 2018 FCC Filing

Action Requested

The USAC Board of Directors High Cost & Low Income Committee (Committee) is requested to approve the 2nd Quarter 2018 (2Q2018) programmatic budget and demand projection for the High Cost Support Mechanism for submission to the Federal Communications Commission (FCC) in USAC's January 31, 2018 quarterly filing.

Discussion

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

2Q2018 Operating Budget

Based on current operational responsibilities and requirements, USAC management estimates a direct operating budget of $3.10 million will be required to fund High Cost Support Mechanism programmatic activities in 2Q2018, which includes:

- $1.50 million in compensation and benefits for 40 full time equivalents (FTEs), including dedicated information technology (IT) and data support teams.
- $1.07 million in professional fees, including:
  - $0.45 million for program, IT, and data team contract labor.
  - $0.27 million for Federal Information Security Management Act (FISMA) testing.
  - $0.13 million for Mobility Fund Verification.
  - $0.09 million for statisticians and user support.
  - $0.08 million for operations and maintenance.
  - $0.05 million for call center support.
- $0.35 million for Beneficiary and Contributor Audit Program (BCAP) audits.
- $0.18 million for data collection, travel, meetings and conferences, printing, and personnel expenses.

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

The details to support the allocation of USAC common operating costs to the High Cost Support Mechanism are included with the Board budget materials under item aBOD05 013018.

2Q2018 Capital Budget

USAC management estimates a direct capital budget of $0.13 million in 2Q2018 for High Cost software development.

The details to support the allocation of USAC common capital costs to the High Cost Support Mechanism are included with the Board budget materials under item aBOD05 013018.

Budget Attachments

Attachment A provides the details and compares the proposed 2Q2018 operating budget to 2nd Quarter 2017 actual expenditures.

Attachment B provides a comparison of the budget to actual expenditures for the 12 months ending December 31, 2017. Explanations are provided for significant variances.

Collection Requirement

Based on the 2Q2018 operating and capital budgets, USAC management estimates a collection requirement of $3.23 million for High Cost Support Mechanism administrative costs in 2Q2018, as follows:

Collection Requirement	Requirement in Millions
2Q2018 Operating Budget	$3.10
2Q2018 Capital Budget	0.13
Total Collection Requirement	**$3.23**

Funding Requirement

On a quarterly basis, USAC is required to submit to the FCC the projected demand for the upcoming quarter.[3] USAC estimates the 2Q2018 demand requirement for the High Cost Support Mechanism as follows:

Funding Requirement	**Requirement in Millions**
High Cost Loop Support[4]	$125.65
Connect America Broadband Loop Support[5]	178.02
Frozen Price Cap Carrier Support[6]	36.74
Connect America Fund Phase II[7]	379.42
Frozen Competitive ETC Support[8]	122.47
Connect America Fund Intercarrier Compensation[9]	102.75
Alaska Plan Support[10]	32.08
Alternative Connect America Cost Model[11]	82.21
Total Funding Requirement	**$1,059.34**

[3] 47 C.F.R. § 54.709(a). Sixty days prior to the start of each quarter, USAC provides projected support mechanism demand and administrative expense data to the FCC. Thirty days prior to the start of the quarter, USAC submits projected universal service contributor revenue data to the FCC. The FCC uses these projections to establish the Universal Service Fund (USF) contribution factor for the upcoming quarter, and USAC uses the resulting contribution factor to invoice universal service contributors once the quarter begins.

[4] High Cost Loop (HCL) support is provided pursuant to 47 C.F.R. §§ 54.1301-54.1304 and includes Safety Net Additive Support (SNA) and Safety Valve Support (SVS).

[5] *See Connect America Fund et al.*, WC Docket Nos. 10-90 et al., CC Docket No. 01-92, Report and Order, Order and Order on Reconsideration and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087, 3117-55, paras. 80-185 (2016) (*Rate-of-Return Reform Order*).

[6] *See Connect America Fund et al.*, WC Docket Nos. 10-92 et al., GN Docket No. 09-51,CC Docket Nos. 01-92 et al., WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17715, 17725-26, paras. 133, 159 (2011) (*USF/ICC Transformation Order*).

[7] *See Connect America Fund et al.*, WC-Docket Nos. 10-90 et al., Report and Order, 29 FCC Rcd 15644 (2014).

[8] *See USF/ICC Transformation Order*, 26 FCC Rcd at 17715, para. 133.

[9] *Id.* at 17956, para. 847.

[10] *See Wireless Telecommunications Bureau Approves Performance Plans of the Eight Wireless Providers that Elected to Participate in the Alaska Plan*, WC Docket No. 16-271, Public Notice, 31 FCC Rcd 13317 (2016); *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 10139 (2016) (*Alaska Plan Order*).

[11] *See Wireline Competition Bureau Authorizes 182 Rate-Of-Return Companies To Receive $454 Million Annually In Alternative Connect America Cost Model Support To Expand Rural Broadband*, WC-Docket Nos. 10-90, Public Notice, 32 FCC Rcd 842 (WCB 2017) (*A-CAM Authorization PN*); *Rate-of-Return Reform Order*, 31 FCC Rcd at 3094-3117, paras. 17-79.

The 2Q2018 demand for the following support components will be paid from cash reserved in the High Cost account:[12]

Reserve Funding	Funding in Millions
Connect America Fund Phase II Transition[13]	$11.36
Rural Broadband Experiments (RBE)[14]	0.83
Alternative Connect America Cost Model Transition[15]	54.90
Mobility Fund Phase I[16]	9.08
Total Reserve Funding	**$76.17**

[12] The *USF/ICC Transformation Order* sets a target for High Cost Program support disbursements of $4.50 billion over six years. The Order directed USAC to project High Cost Program demand at no less than $1.125 billion per quarter starting in 1st Quarter 2012. The Order required that if actual contributions exceed demand, excess contributions are to be credited to a new Connect America Fund (CAF) reserve account, and if actual High Cost Program demand exceeds the quarterly target of $1.125 billion, the reserve account will fund the additional demand in that quarter. On March 30, 2016, the *Rate-of-Return Reform Order*, directed USAC to eliminate the CAF reserve account and transfer the funds to the High Cost account. USAC will credit excess contributions to support the high-cost mechanism to the high-cost account. Funds from the High Cost account will be used to reduce the high-cost demand to $1.125 billion in any quarter that would exceed $1.125 billion. In January 2017, the FCC further directed USAC to retain in the High Cost account at $1,768.21 million to cover the net increase in support associated with A-CAM for 2018 through 2026 and to take any excess contributions to the fund into account when submitting demand for the first quarter of 2018. *A-CAM Authorization PN,* 32 FCC Rcd at 843. The FCC also clarified that USAC should use the High Cost account for RBE, CAF II transition, A-CAM transition, and Mobility Fund Phase I. *Wireline Competition Bureau Provides Guidance to the Universal Service Administrative Company Regarding the High-Cost Universal Service Mechanism Budget*, WC Docket No. 10-90, Public Notice, 32 FCC Rcd 9243 (WCB 2017).

[13] *See* 47 C.F.R. § 54.310(f); *see also Wireline Competition Bureau Addresses Transition to Model-Based Support for Carriers That Accepted the Offer of Phase II Connect America Fund Support,* WC Docket No. 10-90, Public Notice, 30 FCC Rcd 9780 (WCB 2015).

[14] *See Connect America Fund*, *et al.*, WC Docket Nos. 10-90, 14-58, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8769 (2014); *Connect America Fund*, *et al.*, WC Docket Nos. 10-90, 14-259, Order, 31 FCC Rcd 853 (WCB 2016).

[15] *See A-CAM Authorization PN,* 32 FCC Rcd at 843; *see also Connect America Fund, WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking*, 31 FCC Rcd 13775 (2016) (*A-CAM Revised Offer Order*). The FCC directed USAC to pay A-CAM transition support using existing cash in the High Cost account. *A-CAM Authorization PN*, 32 FCC Rcd at 844 & n.12.

[16] Mobility Fund Phase I and Tribal Mobility Phase I are projected to received $36 million for 2018, with a total of $9.08 projected for 2Q2018. *Wireline Competition Bureau Provides Guidance to the Universal Service Administrative Company Regarding the High-Cost Universal Service Mechanism Budget*, WC Docket No. 10-90, Public Notice, 32 FCC Rcd 9243 (WCB 2017); *see also USF/ICC Transformation Order*, 26 FCC Rcd at 17663, paras. 447–74.

Prior Period Adjustments

Results for 4th Quarter 2017 (4Q2017) contribute to an over-funded condition. The total prior period adjustment to the 2Q2018 funding requirement based on 4Q2017 actual results will reduce the funding requirement by $12.49 million. The explanation for the adjustment is provided below:

Reason for the Prior Period Adjustment	Adjustment in Millions
Billings were higher than projected	($1.92)
Interest income was higher than anticipated	(0.11)
Bad debt expense was lower than anticipated	(10.46)
Total Prior Period Adjustment	**($12.49)**

Summary of Demand

The total funding requirement of $1,059.34 million is adjusted as follows, resulting in a total projected 2Q2018 funding requirement for the High Cost Support Mechanism of $1,056.46 million.

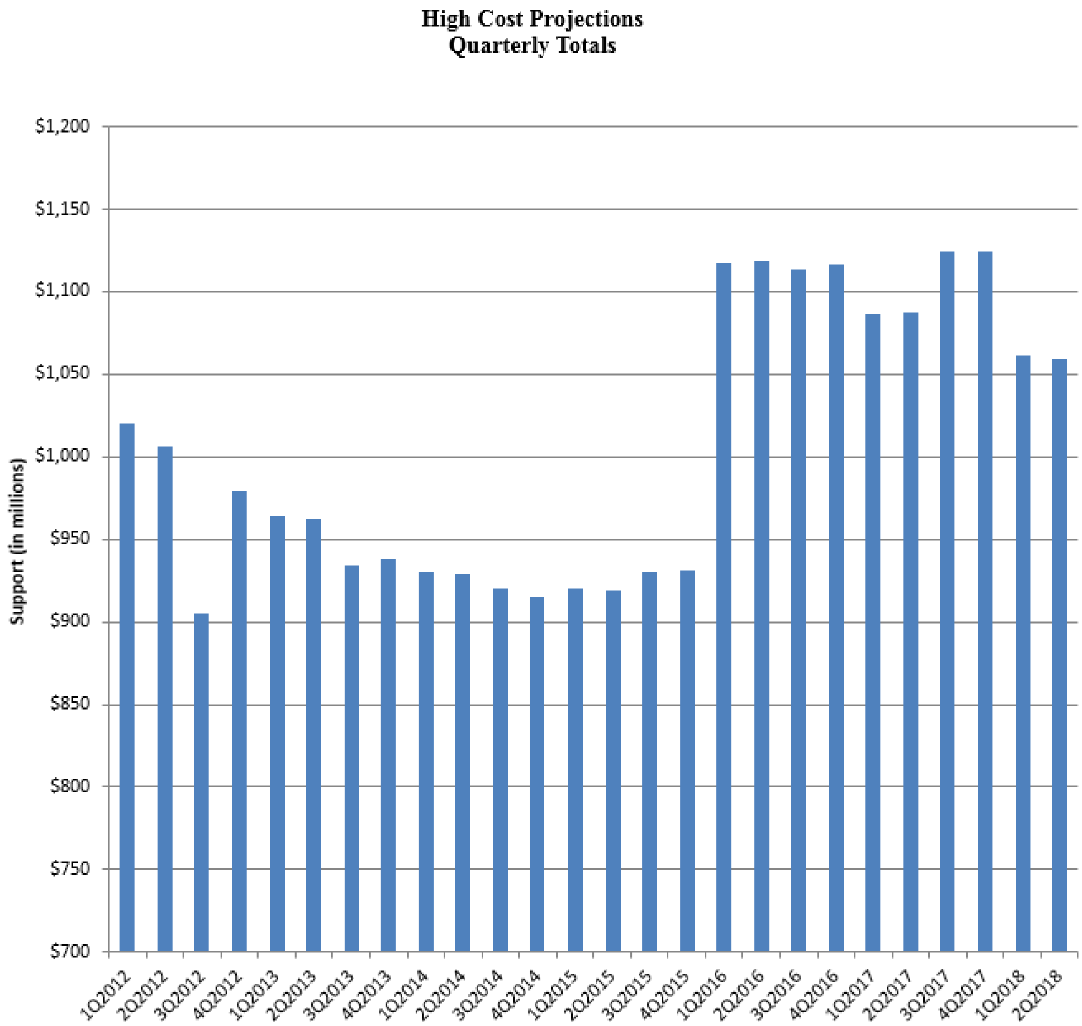
High Cost Support Mechanism
Fund Size Projections for 2nd Quarter 2018
(in millions)

High Cost Support	$1,059.34
Prior Period Adjustment	(12.49)
USAC Admin Expenses (including $8.57 million for common costs)	11.80
Interest Income	(2.19)
Total 2Q2018 Demand	**$1,056.46**

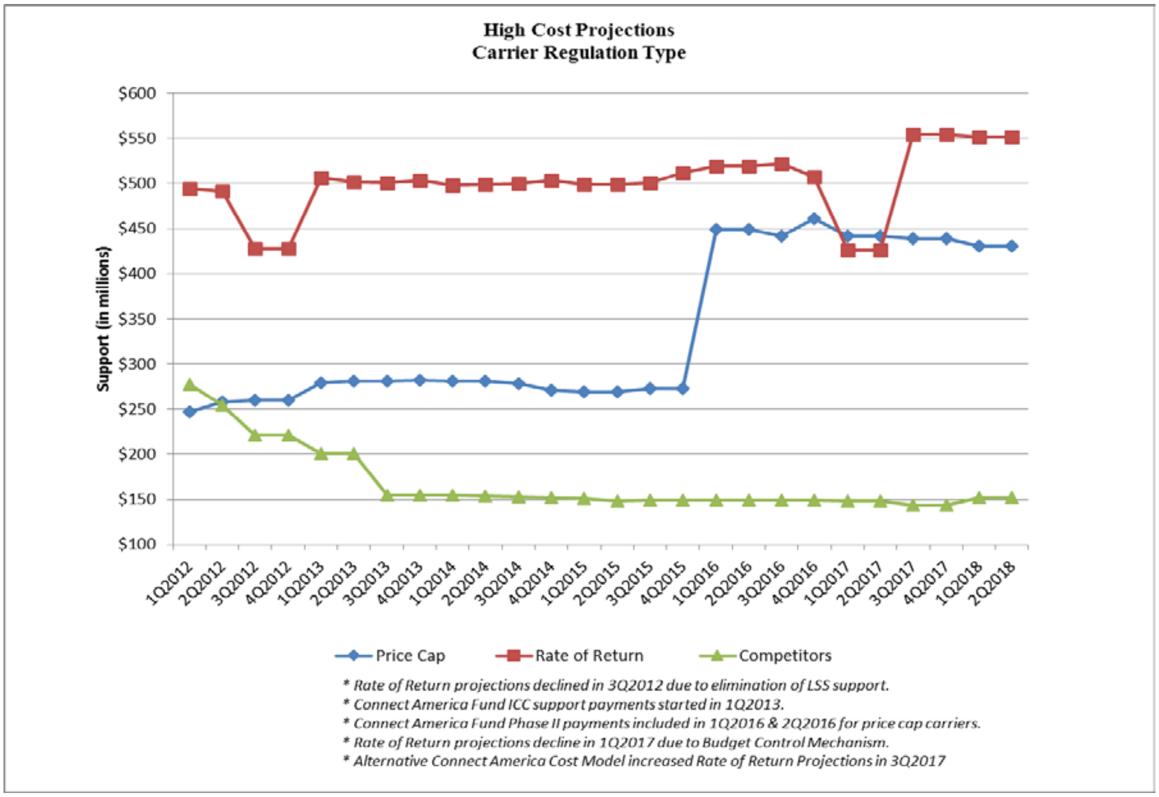
High Cost Support Mechanism
Quarter-Over-Quarter Projections
(in millions)

	2Q2018	1Q2018	4Q2017	3Q2017
High Cost Support	$1,059.34	$1,061.72	$1,125.00	$1,125.00
Prior Period Adjustment	(12.49)	50.07	15.67	(15.07)
USAC Admin Expenses	11.80	12.55	10.14	9.58
Interest Income	(2.19)	(4.48)	(4.74)	(4.26)
Total Demand	**$1,056.46**	**$1,119.86**	**$1,146.07**	**$1,115.25**

High Cost Support Mechanism Summary



* Increase from 1Q2016 to 3Q2016 is mainly due to start of CAF Phase II support.
**In 3Q2017 Demand was $1,134 million and thus exceeded quarterly budget by $9.32 million.
***In 4Q2017 Demand was $1,146 million and thus exceeded quarterly budget by 21.36 million.
****Per USF/ICC Transformation Order, projected Demand = $1.125 from 2012-2017, there after based on actual projected Demand.



<u>Management Recommendation</u>

USAC management recommends the Committee approve the budget and collection requirement as proposed.

<u>Recommended USAC High Cost & Low Income Committee Action</u>

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC High Cost & Low Income Committee approves a 2nd Quarter 2018 High Cost Support Mechanism operating budget of $3.10 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee approves a 2nd Quarter 2018 High Cost Support Mechanism capital budget of $0.13 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of $3.23 million for High Cost Support Mechanism administrative costs in the required January 31, 2018 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on January 29, 2018, a summary of the 2nd Quarter 2018 High Cost Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required January 31, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the total variance for the High Cost Support Mechanism is equal to or less than $10 million, or may seek approval from the High Cost & Low Income Committee Chair to make adjustments if the total variance is greater than $10 million, but not more than $15 million.

Expense Category	2Q2017 Actual	2Q2018 Budget	Increase/ (Decrease)	Explanations
Compensation & Benefits	$ 1,563.27	$ 1,495.60	$ (67.66)	40 FTEs in 2Q2018 vs an average of 39 in 2Q2017. 2Q2017 actuals include an adjustment to reclass FTEs charged to Common in 1Q2017.
External BCAP Costs	280.22	348.11	67.89	Increase in outsourced audit activity in 2Q2018 under the Beneficiary and Contributor Audit Program
Professional Fees & Contract Labor	793.30	1,072.57	279.27	Increase for FISMA testing and call center support. Baseline costs include contract labor and Mobility Fund Verification.
Telephone & Computer Support	79.09	-	(79.09)	Expenses for computer support
Travel, Meetings & Conferences	(0.21)	48.56	48.77	Lodging, transportation, and meals associated with program and user support travel
High Cost Data Collection	98.67	98.67	(0.00)	NECA contract to collect High Cost data
Other Expenses	9.68	35.37	25.68	Higher spending anticipated for training and education
Total Programmatic Operating Costs	**$ 2,824.02**	**$ 3,098.88**	**$ 274.86**	
Direct Capital Costs	**$ (4.35)**	**$ 129.19**	**$ 133.54**	Enhancements to Connect America Portal (CAP) system
Total Direct Costs - High Cost Program	**$ 2,819.67**	**$ 3,228.07**	**$ 408.40**	
Common Operating Costs Assigned to High Cost Program	$ 7,094.52	$ 8,427.01	$ 1,332.49	Allocation of indirect operating costs based on the Cost Allocation Methodology (CAM)
Common Capital Costs Assigned to High Cost Program	128.00	145.91	17.91	Allocation of indirect capital budget based on the CAM
Total Common Costs Assigned to High Cost Program	**$ 7,222.52**	**$ 8,572.92**	**$ 1,350.40**	
Total High Cost Program with Allocations	**$ 10,042.19**	**$ 11,800.99**	**$ 1,758.80**	

Direct Operating Expenses	Actual	Budget	Variance	%	Explanations
Compensation & Benefits	$ 5,547.75	$ 6,002.92	$ 455.17	8%	
External BCAP Costs	1,984.82	2,436.80	451.98	19%	Lower spending on outsourced and co-sourced audits under the Beneficiary and Contributor Audit Program
Professional Fees & Contract Labor	2,381.37	3,076.28	694.91	23%	Lower spending on statistician and user support staff augmentation
Telephone & Computer Support	141.02	53.52	(87.50)	-163%	Higher spending on software licenses for broadband portal
High Cost Data Collection	444.53	477.92	33.39	7%	
Travel, Meetings & Conferences	32.89	93.52	60.63	65%	Lower spending on program and audit travel
Other Expenses	67.70	168.73	101.03	60%	Lower spending on training
Total Direct Operating Expenses	**$ 10,600.08**	**$ 12,309.69**	**$ 1,709.61**	**14%**	
Indirect Expense / Allocations					
USAC Administration	$ 28,643.86	$ 28,679.24	$ 35.38	0%	
Total Expense	**$ 39,243.94**	**$ 40,988.93**	**$ 1,744.99**	**4%**	

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

INFORMATION ITEM – *Executive Session Option*

Information on Eight USAC Internal Audit Division
High Cost Support Mechanism Beneficiary Audit Reports

Information Presented

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

Discussion

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

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

Summary of High Cost Support Mechanism Beneficiary Audit Reports

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
CenturyLink United Telephone Co. of Ohio, Ohio **(Attachment A)**	1	• **Ineligible Access Lines.** The Beneficiary reported broadband-only lines for High Cost program support, which are ineligible access lines as it did not provide the voice grade access to the public switched network.	$5,360,385	$143,158	$143,158	Y
CenturyTel of Postville, Inc., Iowa **(Attachment B)**	3	• **Lack of Documentation: Common Line Revenue Requirement.** The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate the accuracy of the data reported to calculate the Common Line Revenue Requirement for High Cost Program purposes. • **Inaccurate Revenues.** The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report the correct subscriber line charge (SLC) revenue amounts for High Cost Program purposes.	$382,440	$19,869	$19,869	Y

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
Verizon Communications, Inc., California	2	• **Inadequate Documentation: Access Line Counts.** The Beneficiary did not provide adequate documentation to demonstrate the accuracy of its reported access lines counts. • **Misclassified Access Lines.** The Beneficiary did not report its access lines under the appropriate customer class.	$9,950,811	($404)	$0	N
Riviera Telephone, Inc., Texas **(Attachment C)**	3	• **Unsupported Adjustments to Labor Time Studies.** The Beneficiary was unable to provide supporting documentation for adjustments made to labor time studies for two employees. The adjustments moved $12,335 of payroll expenses from nonregulated, customer service, plant nonspecific, and corporate expenses to plant specific expenses and other customer service and corporate expense categories. • **Loop Counts.** The Beneficiary included 16 nonrevenue producing loops (nonworking loops) in its 2011 High Cost Program (HCP) filings,	$2,331,336	$331,513	$331,513	Y

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		which overstated total working loops and category 1.3 loops. • **Expenses Improperly Included in Regulated Expenses.** The 2011 cost study included $1,347,418 of expenses that were not related to provisioning, maintaining, or upgrading telecommunications services (disallowed expenses). Based on the results of this finding, the audit scope was expanded to the 2009, 2010, 2012, and 2013 cost studies. The 2009 cost study included $322,502 of disallowed expenses. The 2010 cost study included $502,246 of disallowed expenses. The 2012 cost study included $488,210 of disallowed expenses. The 2013 cost study included $233,559 of disallowed expenses.				
West Kentucky Rural Telephone Cooperative, Corp., Inc., Tennessee	0	• No Findings.	$426,581	$0	$0	N/A

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
East Otter Tail Telephone Company, Minnesota	1	• **Improper Affiliate Transactions.** Management fees charged to the Beneficiary by its parent company were overstated by $328,364 due to the use of projected versus actual parent company expenses in determining the management fees, errors in apportionment factor calculations, and lack of adequate documentation. In addition, the Beneficiary did not remove nonregulated expenses of $22,363 related to voicemail services purchased from one of its affiliates during the Part 64 cost allocation process.	$2,233,434	$39,829	$39,829	N
Beehive Telephone Company, Utah	5	• **Improper Categorization of Circuit Equipment.** Certain category 4 circuit equipment assets were not appropriately identified as joint use and appropriately apportioned between categories 4.11 and 4.13. • **Lack of Supporting Documentation for Purchase of Assets from**	$4,208,902	($34,623)	$0	N

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		Affiliate. Land and building assets purchased directly from the Beneficiary's owner were recorded at fair market value rather than the lower of fair market value or net book cost as supporting documentation of the owner's original cost was not available.				
Hood Canal Telephone Company, Washington **(Attachment D)**	6	• **Improper Allocation Methodology.** The Beneficiary understated the allocation of the following asset and expense accounts to non-regulated activities: Account 2110 (Land and Support Assets), Account 6710 (Planning and Executive Expenses), and Account 6720 (General and Administrative Expenses). • **Lack of Documentation: Assets.** The Beneficiary was unable to provide underlying documentation to support the inclusion of one of the assets selected for testing related to Cable and Wire Facilities (C&WF) – Underground Fiber on the HCP Forms. • **Misclassified Expenses.** The Beneficiary inappropriately	$962,937	$127,389	$127,389	Y

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		categorized travel expenses related to a nonregulated business conference totaling $1,097 as regulated expenses in Account 6710 (Executive Expenses). Additionally, the Beneficiary inappropriately included expenses not necessary to the provision of HCP supported services in regulated Account 6720 (General and Administrative Expenses) and on the HCP Forms.				
Total	**21**		**$25,856,826**	**$626,731**	**$661,758**	

Attachment A

HC2014BE017

Universal Service
Administrative Co.

CenturyLink United Telephone Co. of Ohio

Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2014BE017

TABLE OF CONTENTS

Universal Service
Administrative Co.

EXECUTIVE SUMMARY

May 9, 2017

Donnie Aultman
CenturyLink United Telephone Co. of Ohio
100 CenturyLink Drive
Monroe, LA 71203

Dear Mr. Aultman:

The Universal Service Administrative Company (USAC or Administrator) Internal Audit Division (IAD) audited the compliance of CenturyLink United Telephone Co. of Ohio (Beneficiary), study area code 300661, using regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Part 54, as well as other program 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 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 one detailed audit finding (Finding) outlined 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,

Wayne M. Scott

Wayne M. Scott
Vice President, Internal Audit Division

cc: Vickie Robinson, USAC Acting Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery[1]
Finding #1: 47 C.F.R. § 54.101 - Ineligible Access Lines The Beneficiary reported broadband-only lines for High Cost program support, which are ineligible access lines as it did not provide the voice grade access to the public switched network.	$143,158	$143,158
Total	**$143,158**	**$143,158**

USAC MANAGEMENT RESPONSE

USAC management concurs with the finding identified by the auditors and will seek recovery of the High Cost Program support amount noted in the chart below.

	IAS (A)	USAC Recovery Action (A)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$143,158	$143,158	N/A

PURPOSE, SCOPE AND PROCEDURES

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

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2010-2011	2012	$170,358
Frozen High Cost Support (FHCS)	2011	2012	$5,204,196
Interstate Access Support (IAS)	2011	2012	$(79,269)
Incremental Support (IS)	2012	2012	$65,100
Total			**$5,360,385**

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

BACKGROUND

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

PROCEDURES

IAD performed the following procedures:

A. General Procedures

IAD obtained and examined the ETC designation order to determine whether the Beneficiary was designated as an ETC in the study area prior to receiving High Cost Program support. IAD also obtained and examined the Beneficiary's state and/or self-certification letters for timeliness and the notation that all federal High Cost Program support provided will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

B. High Cost Program Support Amount

For CAF ICC and IS, IAD recalculated the support amounts received and determined that there were no more than nominal differences from the amounts recorded in the High Cost system. For FHCS, the 2011 base period amounts that were used to calculate the FHCS disbursement for the audit period were not tested and were presumed to be accurate. For IAS, IAD obtained and examined the Beneficiary's end user billing records, Unbundled Network Element (UNE) zones, and carrier common line, marketing, and transport interconnection charge (CMT) revenue data to support the amounts reported on the IAS Forms. IAD did not recalculate the per line rates. IAS was eliminated as a USF High Cost support type in the 2011 USF / Intercarrier Compensation (ICC) Transformation Order.[2] The last IAS disbursements to incumbent carriers were made in calendar year 2012. Prior to elimination, IAS disbursements were capped at $650 million[3] and carriers were provided with their per line rates for review and acceptance; thus, carriers were given an opportunity to dispute their IAS disbursements in the event of an improper IAS rate calculation. While the recalculation of the IAS per line rates may identify a variance between what individual carriers should have received for IAS, there would be no impact to the USF, as the IAS disbursements would not vary from the $650 million cap. For these reasons and in consultation with USAC management, IAD concludes recalculation of IAS per line rate support is low risk and does not justify the effort and resources necessary to recalculate the IAS per line rates.

C. High Cost Program Process

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

---

[2] *Connect America Fund, A National Broadband Plan for Our Future, et al.,* WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17712, para. 128, n. 200 (2011) (*CAF/ICC Transformation Order*).

[3] *See* 47 C.F.R. § 54.801(a).

D. Subscriber Listing and Billing Records

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

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.
- The data files contained duplicate lines.
- The data files contained blank or invalid data.
- The data files contained non-revenue producing or non-working loops.
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

E. UNE Zones

IAD obtained and examined the Beneficiary's documentation to determine whether the Beneficiary reported accurate unbundled network element (UNE) zone rates.

F. CMT Revenues

IAD obtained and examined the Beneficiary's documentation to determine whether the Beneficiary reported accurate common line, marketing, and transport interconnection charge (CMT) revenues.

DETAILED AUDIT FINDING

Finding #1: 47 C.F.R. § 54.101 – Ineligible Access Lines.

CONDITION

IAD examined documentation to determine whether the Beneficiary reported eligible access lines for High Cost Program purposes. Of the 58,768 residential/single-line business (Res/SLB) lines and 7,306 multi-line business (MLB) lines in Zone 4, the only zone in which the carrier received IAS support, the Beneficiary identified 4,274 Res/SLB that were described as Pure Broadband lines. The Beneficiary informed IAD that these lines were provisioned with a voice line that can receive inbound calls, but since the line is primarily for broadband service, an 'outbound call block" was placed on the line to limit the outbound calls to dialing 911 only.[4] The Beneficiary asserts that these lines have the capability to transmit both inbound and outbound voice calls and that the call block feature, which is enabled in the switch, is the trigger that limits outbound calling capability. The Beneficiary also stated that the service has a telephone number associated with it, provides dial tone, permits outbound E911 and 711 calling, and is provisioned in a manner that allows unlimited inbound calling. The Beneficiary treats these lines the same way it treats any other line that is capable of transmitting and receiving voice signals and an interstate subscriber line charge is applied within the Pure Broadband bundle consistent with other line-provisioned services. The Beneficiary reports these Pure Broadband line as an access line for IAS purposes.[5] Because the Beneficiary blocked the outbound calling capability on its Pure Broadband lines, these lines do not provide voice grade access to the public switched network, which is a functionality that, among other things, enables a user to transmit voice communications, including signaling the network that the caller wishes to place a call. Thus, these Pure Broadband lines are not eligible for IAS.

Although the Beneficiary's Pure Broadband lines could have the functionality necessary to transmit both inbound and outbound voice calls, because there is a limit on the outbound calling capability, which only permits outbound E911 and 711 calling, the Beneficiary did not provide the Pure Broadband lines with voice grade access to the public switched network. IAS support can only be used for supported services, which requires outbound calling capability.[6] Because the Beneficiary has placed a block on the outbound calling function, these lines do not provide transmission capability as required by FCC Rules. IAS must only be used for the provision, maintenance, and upgrading of facilities and services for which the support is intended.[7] IAS was expressly designed to keep regulated voice rates affordable.[8] Because the

---

[4] Beneficiary responses to audit inquiries, received Dec. 16, 2016.

[5] Beneficiary responses to audit inquiries, received Jan. 30, 2017.

[6] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 88010–11, para. 63 (1997) (adopting a voice grade access to the public switched network as a core or designated service eligible to receive universal service support, and defining it as "the ability to place calls, and thus incorporates the ability to signal the network that the caller wishes to place a call"); 47 C.F.R. § 54.101. We note that the revision to Section 54.101(a) as of December 29, 2011 had no effect on the requirement to include the functionality to transmit voice services. The *CAF/ICC Modernization Order* provided expressly that its decision to use the term "voice telephony" to describe the supported services "should not result in a lower standard of voice service .... Rather, the modified definition simply shifts to a technologically neutral approach, allowing companies to provision voice service over any platform." *CAF/ICC Transformation Order,* 26 FCC Rcd at 17692, para. 78.

[7] *See* 47 C.F.R. § 54.7.

[8] *Access Charge Reform et al.*, CC Docket Nos. 96-262 et al., Order on Remand, 18 FCC Rcd 14976, 14978, at para. 4 (2003) (*CALLS Remand Order*); *Connect America Fund et al.,* WC Docket Nos. 10-90 *et al.*, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, 26 FCC Rcd 4554, 4633, para. 229 (2011) ("IAS is a high-cost program that

Beneficiary did not provide all of the required functionalities, the broadband-only lines are not eligible to receive federal universal service support.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing line counts and requirements to report only eligible lines with all of the required services for High Cost Program purposes.

EFFECT

Support Type	Monetary Effect & Recommended Recovery
Interstate Access Support	$143,158

RECOMMENDATION

IAD recommends USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it only reports eligible lines for High Cost Program purposes. IAD also recommends the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the requirements for reporting lines for High Cost Program purposes.

BENEFICIARY RESPONSE

> CenturyLink disagrees with this audit finding. The line used in the Pure Broadband service offering has the capability to transmit both inbound and outbound voice calls. The call block feature, which is enabled in the switch, is the trigger that limits outbound calling capability. The service has a telephone number associated with it, provides dial tone, permits outbound E911 and 711 calling, and is provisioned in a manner that allows unlimited inbound calling. For all purposes relevant to this audit, the company treats the line provisioned in the Pure Broadband service offering the same way it treats any other line capable of transmitting and receiving voice signals. The company consistently views the Pure Broadband line as an access line.
>
> Additionally, the company disagrees with the view the nine service functionalities of former 47 CFR § 54.101(a) were required to be provided on a line in order to receive IAS for that line. Former 47 CFR § 54.101(b) states that "[a]n eligible telecommunications carrier must offer each of the services set forth in paragraph (a) of this section in order to receive federal universal service support." But, IAS did not exist at the time these requirements were adopted and thus these requirements had no applicability to IAS at their inception. Subsequently, the Federal Communications Commission (Commission) adopted IAS as a separate and distinct support mechanism under the umbrella of the universal service program.[9] IAS was established as a separate explicit support mechanism for the purpose of reducing implicit subsidies in interstate access charges of local exchange carriers (LECs) to interexchange carriers.[10]

---

historically has supported a portion of the local loop, the facility to the end user that delivers both interstate and intrastate services.... It was expressly designed to keep regulated voice rates affordable.").

[9] *See Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96-262 and 94-1, Sixth Report and Order *et al.*, 15 FCC Rcd 12962, 13039-70, para. 185-250 (2000) (*CALLS Order*).
[10] *Id.*

In creating IAS, the Commission did not define a "line" for IAS purposes. Nor, to the company's knowledge, has the Commission ever stated a "line" for purposes of IAS must provide service that included all nine service functionalities of § 54.101 in order to receive IAS. Instead, the Commission has consistently recognized IAS is a unique support mechanism targeted specifically to support LECs with reduced interstate access rates.[11] In turn, fundamentally, LEC lines that enable interstate access should be eligible for IAS. The nine service functionalities of § 54.101 should not apply to determine whether a line is eligible for IAS. Because all inbound calls are permitted on the line, interstate access is available on the Pure Broadband line. As such, a Pure Broadband line permits interstate access functionality that underlies interstate access charges and support and should qualify for IAS.

Also worth noting is CenturyLink offers another broadband service with no voice calling capabilities. As such, CenturyLink does not count the line provisioned for the service as an access line. In contrast, CenturyLink viewed where a broadband service included certain voice calling capabilities, as in the case of the subject service, the line provisioning the service should be recognized as an access line. In turn, the access line that permits interstate access is appropriate to be counted for Interstate Access Support.

Lastly, while the company does not agree with the audit condition and corresponding recommended recovery, it also should be noted the remedy being applied does not allow the company to benefit from offsets in increased IAS per line amounts should the remedy being proposed have been in place at the time the original IAS calculation was made. As a result, the proposed recovery amount overcharges CenturyLink for this finding and cannot be fairly calculated in isolation. USAC should decline to seek any recovery for this finding.

IAD RESPONSE

The Beneficiary states in its response that "[t]he line used in the Pure Broadband service offering has the capability to transmit both inbound and outbound voice calls. The call block feature, which is enabled in the switch, is the trigger that limits outbound calling capability." The Beneficiary also states that "LEC lines that enable interstate access should be eligible for IAS" and "[t]he nine service functionalities of § 54.101 should not apply to determine whether a line is eligible for IAS." IAD does not agree with the Beneficiary's assertions. Although the Beneficiary's Pure Broadband lines could have the capability to transmit both inbound and outbound voice calls, the Beneficiary did not provide these subscribers with voice grade access to the public switched network that enables a user to transmit voice communications. Because the Beneficiary has placed a block on the outbound calling function, these lines do not provide transmission capability as required by the Rules.[12] Further, the Rules are clear that, in order to receive federal universal service support, an ETC must provide all of the services or functionalities set forth in 47 C.F.R. § 54.101(a) and that IAS must only be used for the provision, maintenance, and upgrading of facilities and services for which the support is intended.[13] Because the Beneficiary did not provide all of the required services and functionalities, the Pure Broadband lines are not eligible to receive federal universal service support.

---

[11] *See, e.g., CALLS Order* at para. 185-250 and Appendix B (establishing IAS as a separate funding mechanism under its own section of the Commission's rules, 47 C.F.R. § 54.800 – 54.809, in order to replace implicit support in interstate access charges and support carriers serving lines in areas where they cannot recover their permitted revenues); 47 CFR § 54.809 (requiring separate certification regarding use of IAS to the Commission); *Connect America Fund*, Order, WC Docket No. 10-90, 27 FCC Rcd 605, 606, para. 3 (2012) (clarifying that frozen support derived from IAS is not to be reduced for any rate-floor reduction because IAS provides support for interstate rates, not intrastate end-user rates).

[12] *See* supra note 6.

[13] 47 C.F.R. § 54.7.

The Beneficiary states in its response that "IAS was established as a separate explicit support mechanism for the purpose of reducing implicit subsidies in interstate access charges of local exchange carriers (LECs) to interexchange carriers." The Beneficiary also asserts that IAS did not exist at the time these requirements were adopted and thus these requirements had no applicability to IAS at their inception. IAD does not agree with the Beneficiary's assertions. IAS was designed to keep regulated voice rates affordable.[14] While IAS was created after 47 C.F.R. § 54.101(a) and (b) became effective, the requirements are applicable to all eligible telecommunications carriers (ETCs) receiving federal universal service support.[15] An ETC is obligated to provide all of the supported services defined in 47 C.F.R. § 54.101 throughout the area for which it has been designated an ETC.[16] Further, IAS is not treated as a separate and distinct support mechanism under the umbrella of universal service program such that the transmit requirement of 47 C.F.R. § 54.101(a)(1) does not apply. Only an ETC designated under section 214 (e) shall be eligible to receive Federal universal support; section 214 (e)(1) expressly requires that the designated carrier offer the services that are supported by the Federal universal service mechanisms throughout its service area.

The Beneficiary states in its response that "the remedy applied does not allow the company to benefit from offsets in increased IAS per line amounts should the remedy being proposed have been in place at the time the original IAS calculation was made." It is not USAC's practice to help a Beneficiary benefit from offsets derived when a Rule violation has occurred. Nor is it USAC's practice to make adjustments to a Beneficiary's High Cost Program support amount for other study areas in which High Cost support funds that are capped have been affected by adverse audit findings. Further, there is no FCC rule or regulation that IAD is aware of that requires such treatment.

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

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.101 (a)-(b) (2011)	(a) Services designated for support. The following services or functionalities shall be supported by federal universal service support mechanisms: (1) Voice grade access to the public switched network. "Voice grade access" is defined as a functionality that enables a user of telecommunications services to transmit voice communications, including signaling the network that the caller wishes to place a call, and to receive voice communications, including receiving a signal indicating there is an incoming call. For the purposes of this part, bandwidth for voice grade access should be, at a minimum, 300 to 3,000 Hertz; (2) Local usage. "Local usage" means an amount of minutes of use of exchange service, prescribed by the Commission, provided free of charge to end users;

[14] *See* supra note 8.
[15] *See* 47 C.F.R. § 54.809(a) (requiring all carriers receiving IAS support to certify "all interstate access universal service support provided to such carrier will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended"); *CALLS Order,* 15 FCC Rcd at 13062, para. 232 (adopting the requirement for IAS recipients to comply with existing USF requirements for the implementation of IAS).
[16] *See* 47 U.S.C. § 214(e)(1); 47 C.F.R. § 54.101(b).

Finding	Criteria	Description
		(3) Dual tone multi-frequency signaling or its functional equivalent. "Dual tone multi-frequency" (DTMF) is a method of signaling that facilitates the transportation of signaling through the network, shortening call set-up time; (4) Single-party service or its functional equivalent. "Single-party service" is telecommunications service that permits users to have exclusive use of a wireline subscriber loop or access line for each call placed, or, in the case of wireless telecommunications carriers, which use spectrum shared among users to provide service, a dedicated message path for the length of a user's particular transmission; (5) Access to emergency services. "Access to emergency services" includes access to services, such as 911 and enhanced 911, provided by local governments or other public safety organizations. 911 is defined as a service that permits a telecommunications user, by dialing the three-digit code "911," to call emergency services through a Public Service Access Point (PSAP) operated by the local government. "Enhanced 911" is defined as 911 service that includes the ability to provide automatic numbering information (ANI), which enables the PSAP to call back if the call is disconnected, and automatic location information (ALI), which permits emergency service providers to identify the geographic location of the calling party. "Access to emergency services" includes access to 911 and enhanced 911 services to the extent the local government in an eligible carrier's service area has implemented 911 or enhanced 911 systems; (6) Access to operator services. "Access to operator services" is defined as access to any automatic or live assistance to a consumer to arrange for billing or completion, or both, of a telephone call; (7) Access to interexchange service. "Access to interexchange service" is defined as the use of the loop, as well as that portion of the switch that is paid for by the end user, or the functional equivalent of these network elements in the case of a wireless carrier, necessary to access an interexchange carrier's network; (8) Access to directory assistance. "Access to directory assistance" is defined as access to a service that includes, but is not limited to, making available to customers, upon request, information contained in directory listings; and (9) Toll limitation for qualifying low-income consumers. Toll limitation for qualifying low-income consumers is described in subpart E of this part. (b) *Requirement to offer all designated services.* An eligible telecommunications carrier must offer each of the services set forth in paragraph (a) of this section in order to receive federal universal service support."
#1	47 C.F.R. § 54.101 (2012)	(a) Services designated for support. Voice Telephony services shall be supported by federal universal service support mechanisms. Eligible voice telephony services must provide voice grade access to the public switched network or its functional equivalent; minutes of use for local service provided at no additional charge to end users; access to the emergency services provided by local government or other public safety organizations, such as 911 and enhanced 911, to the extent the local

Finding	Criteria	Description
		government in an eligible carrier's service area has implemented 911 or enhanced 911 systems; and toll limitation services to qualifying low-income consumers as provided in subpart E of this part. (b) An eligible telecommunications carrier must offer voice telephony service as set forth in paragraph (a) of this section in order to receive federal universal service support.

Attachment B

HC2015BE002

Universal Service
Administrative Co.

CenturyTel of Postville, Inc.

Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2015BE002

TABLE OF CONTENTS

Universal Service
Administrative Co.

EXECUTIVE SUMMARY

May 8, 2017

Jerry Allen
CenturyTel of Postville, Inc.
100 CenturyLink Dr.
Monroe, LA 71203

Dear Mr. Allen:

The Universal Service Administrative Company (USAC or Administrator) Internal Audit Division (IAD) audited the compliance of CenturyTel of Postville, Inc. (Beneficiary), study area code 351274, using regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, 65, and 69, as well as other program 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 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,

Wayne M. Scott

Wayne M. Scott
Vice President, Internal Audit Division

cc: Vickie Robinson, USAC Acting Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery[1]
Finding #1: 47 C.F.R. § 54.320(b)(2011) - Lack of Documentation: Common Line Revenue Requirement. The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate the accuracy of the data reported to calculate the Common Line Revenue Requirement for High Cost Program purposes.	$16,015	$16,015
Finding #2: 47 C.F.R. § 54.320(b)(2011) - Inaccurate Revenues. The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report the correct SLC revenue amounts for High Cost Program purposes.	$2,412	$2,412
Finding #3: 47 C.F.R. §§ 54.301(e)(1)(2011) & 54.903(a)(1)(2011) - Improper Data Period: ICLS & LSS. The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report information for High Cost Program purposes in accordance with the cut-off dates established by the Rules.	$1,442	$1,442
Total	**$19,869**	**$19,869**

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.

	ICLS (A)	LSS (B)	USAC Recovery Action (A) + (B)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$16,015	$0	$16,015	
Finding #2	$2,412	$0	$2,412	
Finding #3	($82)	$1,524	$1,442	
Mechanism Total	**$18,345**	**$1,524**	**$19,869**	

[1] The recovery amount noted in the table is not reflective of prior period or cap adjustments. The actual recovery amount will not exceed the recommended recovery amount.
[2] *Id.*

PURPOSE, SCOPE AND PROCEDURES

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

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Frozen High Cost Support (FHCS)	2011	2013	$382,548
Interstate Common Line Support (ICLS)	2011	2013	$3,108
Local Switching Support (LSS)	2011	2013	($3,216)
Total			**$382,440**

BACKGROUND
The Beneficiary is an average schedule eligible telecommunications carrier (ETC) that operates in Iowa. The Beneficiary is an affiliate of CenturyLink, Inc.

PROCEDURES
IAD performed the following procedures:

A. General Procedures
IAD obtained and examined the ETC designation order to determine whether the Beneficiary was designated as an ETC in the study area prior to receiving High Cost Program support. IAD also obtained and examined the Beneficiary's state and/or self-certification letters for timeliness and the notation that all federal High Cost Program support provided was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

B. High Cost Program Support Amount
IAD recalculated the support the Beneficiary received for each High Cost component and determined that there were no more than nominal differences from the disbursement amounts recorded in the High Cost system.[3]

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

---

[3] The 2011 base period amounts that were used to calculate the FHCS disbursement for the audit period were not tested and were presumed to be accurate.

D. Subscriber Listing and Billing Records

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

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.
- The data files contained duplicate lines.
- The data files contained blank or invalid data.
- The data files contained non-revenue producing or non-working loops.
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

E. Revenues

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

F. Minutes and Exchanges

IAD obtained and examined general exchange tariffs (if applicable), carrier access billing invoices, and other related documentation to determine whether the Beneficiary reported accurate minutes of use and number of exchanges.

G. Certifications

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. §§ 54.202(e) (2011) & 54.320(b)(2012) - Lack of Documentation: Common Line Revenue Requirement.

CONDITION

IAD requested documentation to determine whether the Beneficiary reported accurate data to calculate the Common Line Revenue Requirement (CLRR) for High Cost Program purposes. For the sample months of January, August, and December 2011, the Beneficiary was unable to provide documentation to demonstrate the accuracy of the circuit miles, interstate circuits, or switched circuit terminations, which are used to calculate the CLRR. Without this documentation, IAD was unable to determine the accuracy of the data reported to calculate the CLRR for High Cost Program purposes.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate the accuracy of the data reported to calculate the CLRR for High Cost Program purposes. The Beneficiary informed IAD that the three items requested were recalculated by NECA since the company was a NECA pool member at the time.[4]

EFFECT

Support Type	Monetary Effect & Recommended Recovery[5]
ICLS	$16,015

RECOMMENDATION

IAD recommends USAC management seek recovery of the amounts recommended in the Effect section above. The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the Rules. In addition, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

Postville is an average schedule company that was a member of the NECA pool during this audit year. As a pool member, NECA performed the Line Haul study USAC requested to review and they provided average schedule settlments Postville reported. The information NECA provided had minor differences from the amounts reported. The condition above states we were unable to provide documentation. However, NECA Line Haul documentation was provided and was the only information available to Postville since NECA did the study. After speaking with NECA and internal contacts, we are unsure why we have minor differences in

---

[4] Beneficiary responses to audit inquiries, received November 3, 2016.

[5] The Beneficiary reported the same amount for circuit miles, interstate circuits, and the switched terminations for the entire year. Because the Beneficiary did not provide documentation for the circuit miles, interstate circuits, or switched terminations for the sampled months, IAD recalculated the monetary effect for the entire year.

amounts reported versus the back-up provided by NECA. Although the amounts for circuit miles, interstate circuits, or switched circuit terminations did not match exactly to the calculation used in the CLRR, CenturyLink believes it is not correct to exclude all circuit miles, interstate circuits, and switched circuit terminations from the "Monetary Effect & Recommended Recovery", but should base the calculation on NECA documentation. The differences between what was reported and NECA documentation is as follows:

As reported

Description	Circuit Miles	SW Circuit Terminations	IS Circuits
December 2011	345.69	105.75	104.90
August 2011	345.69	105.75	104.90
January 2011	345.69	105.75	104.90

NECA Line Haul Data Collection

December 2011	345.61	105.37	105.37
August 2011	345.61	105.37	105.37
January 2011	345.61	105.37	105.37

Difference

December 2011	(0.08)	(0.38)	0.47
August 2011	(0.08)	(0.38)	0.47
January 2011	(0.08)	(0.38)	0.47

Furthermore, CenturyLink is unable to recalculate the effect using the NECA Line Haul Data Collection data since USAC said they could not share their $16,015 effect calculation because it was USAC Proprietary. Based on the minor differences in the data, the effect should be much less for the total impact to the CLRR.

IAD RESPONSE

The Beneficiary states in its response that the "NECA Line Haul documentation was provided and the only information available to Postville since NECA did the study." IAD does not agree with the Beneficiary's assertion that it provided the NECA Line Haul documentation. The documentation the Beneficiary provided consisted of a screenshot of NECA's system that displayed the amounts reported to NECA for its interstate circuits, interstate circuit miles and interstate switched circuit terminations. A screenshot of the amounts that were reported to NECA does not constitute as adequate documentation as it only confirms what the Beneficiary reported to NECA; it does not provide insight into how those amounts were determined (e.g., underlying source documentation). As noted in the Condition section above, the Beneficiary was unable to provide documentation to demonstrate the accuracy of the circuit miles, interstate circuits, or switched circuit terminations, which are used to calculate the Common Line Revenue Requirement (CLLR).[6] The Beneficiary asserts that NECA performed the study, but at no point

[6] *See* 47 C.F.R. § 54.707(a)-(b).

during the audit did the Beneficiary provide USAC with the actual study developed by NECA or any other underlying source documentation to verify the amounts used in the CLRR calculation or the study.

Further, the Beneficiary states in its response that "based on the minor differences in the data, the effect should be much less for the total impact to the CLRR." IAD does not agree with the Beneficiary's assertion. Because the Beneficiary did not provide adequate documentation to support the amounts reported and used in the CLRR calculation nor the NECA Line Haul Data Collection amounts, IAD was unable to confirm the accuracy of the information reported. Therefore, IAD reduced the circuit miles, switching termination and interstate circuits to zero to recalculate the revised CLRR.

In addition, the Beneficiary states in its response that it "is unable to recalculate the effect using the NECA Line Haul Data Collection data since USAC said they could not share their $16,015 effect calculation because it was USAC Proprietary." The information necessary to recalculate the support was provided to the Beneficiary.[7] IAD shared all of the changes to the inputs of the recalculation of the CLRR with the Beneficiary.[8] IAD also advised the Beneficiary to seek assistance from its NECA representative since NECA calculates the revenue requirement on behalf of all NECA carriers and submits that information to USAC to calculate ICLS support.

For these reasons, IAD's position on the finding remains unchanged.

Finding #2: 47 C.F.R. §§ 54.202(e) (2011) & 54.320(b)(2012) - Inaccurate Revenues.

CONDITION

IAD examined the Beneficiary's documentation to determine whether the Beneficiary reported an accurate subscriber line charge (SLC) revenue amount for High Cost Program purposes. The Beneficiary underreported its SLC revenue amount by $2,412. The Beneficiary must report an accurate SLC revenue amount for High Cost Program purposes.[9]

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report the correct SLC revenue amounts for High Cost Program purposes. The Beneficiary informed IAD that the variance was due to a difference in how the Beneficiary recorded its revenues. The Beneficiary recorded its earned revenues, less any NECA adjustments, which did not agree to the billed revenues reported to USAC.[10]

EFFECT

Support Type	Monetary Effect & Recommended Recovery
ICLS	$2,412

[7] *Id.*
[8] *See* email to Beneficiary sent April, 17, 2017.
[9] *See* Form 509 Instructions, at 4 (Sep. 2009).
[10] Beneficiary responses to audit inquiries, received November 3, 2016.

RECOMMENDATION

IAD recommends USAC management seek recovery of the amounts recommended in the Effect section above. The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the Rules. In addition, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

CenturyLink does not agree with this finding or that it was a reporting error. The difference was a result of how billed and earned revenue was booked. Billed revenue was booked to a payable GL account since this amount was remitted to NECA as a Pool member. Settlements received from NECA were booked as revenue. In this case, the settlement received from NECA was based on system default averages; therefore, the amount in our revenue account did not equal what we billed to the end customer. NECA estimates were adjusted in subsequent months to equal end user billing and this adjustment was journaled to a payable account and not booked to revenue until later months. The end result was the amount paid to NECA for SLC charges was equal to the amount billed to the customer and revenue was trued up in subsequent months through cash flow from the pool.

IAD RESPONSE

During the audit, IAD requested documentation from the Beneficiary to reconcile the SLC revenues reported for ICLS purposes to the general ledger. The general ledger provided by the Beneficiary did not support the amounts on the Beneficiary's 24 month view report. Further, the documentation displaying the NECA settlement revenue amounts and inquiries with the Beneficiary did not substantiate the amount reported.[11] As acknowledged in the Beneficiary's response, the amount in the revenue account did not equal what the Beneficiary billed to its end users.

In addition, the Beneficiary stated in its response that there were NECA settlement true-ups that occurred in subsequent months. The adjustments that were included in the NECA settlements were not made to the data reported to USAC for ICLS purposes as the Beneficiary did not refile its data. Further, the Beneficiary did not provide documentation to demonstrate the adjustments the Beneficiary made were implemented during the NECA settlement process. Although the Beneficiary noted that the "end result paid to NECA for SLC charges was equal to the amount billed to the customer", the documentation provided by the Beneficiary did not support the Beneficiary's assertion. Given the variance between the revenues reported for ICLS purposes and the general ledger remains, IAD is unable to confirm the accuracy of the SLC revenues reported. Thus, our position on this finding remains unchanged.

Finding #3: 47 C.F.R. §§ 54.301(e)(1) & 54.903(a)(1) (2011) - Improper Data Period: ICLS & LSS.

CONDITION

IAD examined the Beneficiary's process to determine whether the Beneficiary submitted accurate and timely information for High Cost Program purposes. IAD noted the following:

- For ICLS, the Beneficiary did not report its access lines as of December 31.[12]

---

[11] Beneficiary responses to audit inquiries, received December 15, 2015.

[12] *See* 47 C.F.R. § 54.903(a)(4) (2011).

- For LSS, the Beneficiary did not report its access lines or minutes of use as of December 31.[13]

The Beneficiary did not report data for High Cost Program purposes in accordance with the cut-off dates established by the Rules.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report information for High Cost Program purposes in accordance with the cut-off dates established by the Rules. The Beneficiary informed IAD that it reports its revenue on a cycle basis.[14]

EFFECT

Support Type	Monetary Effect & Recommended Recovery
ICLS	($82)
LSS	1,524

Because the Beneficiary did not maintain supporting documentation nor could determine its line counts and minutes of use as of December 31, 2011, IAD calculated the average of the line counts and minutes of use for the December 2011 billing cycle and January 2012 billing cycle to estimate the line counts and minutes of use as of December 31, 2011. The averaged lines resulted in a decrease of two lines and the averaged minutes of use resulted in a decrease of 24,879 minutes from the amounts reported for December 2011. Thus, the monetary effect for this finding is a $1,524 overpayment of LSS support and an $82 underpayment of ICLS.

RECOMMENDATION

The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the Rules. In addition, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

> CenturyLink does not agree with this finding . Revenue was reported on billing cycle bases. NECA was aware of this method of reporting and allowed us to report revenues in this manner and was a common industry practice. Ultimately, this is a timing issue which was trued-up when the company exited the NECA pools.

IAD RESPONSE

The Beneficiary states in its response that "NECA was aware of this method of reporting and allowed us to report revenues in this manner and was a common industry practice." Although this was a common industry practice and may be permitted for NECA pooling purposes, the FCC Rules for High Cost program support requires that carriers report their access lines and minutes as of December 31st.

In addition, the Beneficiary states in its response that "this is a timing issue which was trued-up when the company exited the NECA pools." IAD agrees with the Beneficiary that this issue is a timing issue.

---

[13] *See* Form LSSa Instructions, at 2 (Sep. 2009).

[14] Beneficiary responses to audit inquiries, received November 3, 2016.

Yet, a true-up in the NECA pool settlement process, in of itself, does not address or resolve High Cost program requirements that access lines and minutes be reported as of December 31st. While the Beneficiary may have trued-up the data with NECA, the Beneficiary did not submit a revision to its 2011 data. Given the errors noted in the LSS and ICLS filings remain, IAD's position on this finding remains unchanged.

CRITERIA

Finding	Criteria	Description
#1, 2	47 C.F.R. § 54.202(e) (2011) 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. These records should include the following: data supporting line count filings; historical customer records; fixed asset property accounting records; general ledgers; invoice copies for purchase and maintenance of equipment; maintenance contracts for the upgrade or equipment; and any other relevant documentation. This documentation must be maintained for at least five years from the receipt of funding. All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator and their respective auditors.
#2	Form 509 Instructions for Completing Interstate Common Line Support Mechanism, Annual Common Line Actual Cost Data Collection Form, OMB 3060-0972, at 4 (Sept. 2009) *(Form 509 Instructions)*	Row 10, Annual SLC Revenues: Provide your actual amount of Subscriber Line Charge (SLC) revenues in dollars that you collected for the reporting period. 47 C.F.R. Sections 69.104(n), 69.104(o) and 69.104(p).
#3	47 C.F.R. § 54.903(a)(1) (2011)	On April 18, 2002, each rate-of-return carrier shall submit to the Administrator the number of lines it serves as of September 30, 2001, within each rate-of-return carrier study area, by disaggregation zone if disaggregation zones have been established within that study area pursuant to [47 C.F.R.] § 54.315, showing residential and single-line business line counts and multi-line business line counts separately. For purposes of this report, and for purposes of computing support under this subpart, the residential and single-line business class lines reported include lines assessed the residential and single-line business End User Common Line charge pursuant to [47 C.F.R.] § 69.104 of this chapter, and the multi-line business class lines reported include lines assessed the multi-line business End User Common Line charge pursuant to [47 C.F.R.] § 69.104 of this chapter. For purposes of this report, and for purposes of computing support under this subpart, lines served using resale of the rate-of return local exchange carrier's service pursuant to section 251(c)(4) of the Communications Act of 1934, as amended, shall be considered lines served by the rate-of-return carrier only and must be reported accordingly. Beginning

Finding	Criteria	Description
		July 31, 2002, each rate-of-return carrier shall submit the information described in this paragraph in accordance with the schedule in [47 C.F.R.] § 36.611 of this chapter.
#3	47 C.F.R. § 54.903(a)(4) (2011)	Each rate-of-return carrier shall submit to the Administrator on December 31st of each year the data necessary to calculate a carrier's Interstate Common Line Support, including common line cost and revenue data, for the prior calendar year.
#3	47 C.F.R. § 54.301(e) (2011)	Each incumbent local exchange carrier that has been designated an eligible telecommunications carrier and that serves a study area with 50,000 or fewer access lines shall, for each study area, provide the Administrator with the historical total unseparated dollar amount assigned to each account listed in paragraph (b) of this section for each calendar year no later than 12 months after the end of such calendar year.
#3	Form LSSa, Local Switching Support, Instructions for Support Calculation, at 2 (OMB 3060-0814) (Sep. 2009)	Beginning with Data Line (060), enter the amounts for the 12-month period ending December 31 in the spaces provided.

Attachment C

HC2015BE079

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

Riviera Telephone, Inc.
USAC Audit ID: HC2015BE079
SAC No.: 442134

Disbursements Made During the Year Ended December 31, 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

EXECUTIVE SUMMARY

December 5, 2017

Universal Service Administrative Company
2000 L Street, N.W., Suite 200
Washington, DC 20036

Attention: Mr. Wayne Scott

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 Riviera Telephone Company, Study Area Code (SAC) No. 442134, (Riviera or Beneficiary) for disbursements of $2,331,336, made from the Universal Service High Cost Program (HCP) (Disbursements) during the year ended December 31, 2013. At your request, the performance audit scope was expanded to include HCP disbursements during the years ended December 31, 2011, 2012, 2014, and 2015 related to Finding #3.

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, and K; Part 36, Subpart 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).

Based on the test work performed, our audit disclosed three detailed audit findings (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
December 5, 2017

Audit Results

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.202(e) and 47 C.F.R. § 54.320(b) – Unsupported Adjustments to Labor Time Studies: The Beneficiary was unable to provide supporting documentation for adjustments made to labor time studies for two employees. The adjustments moved $12,335 of payroll expenses from nonregulated, customer service, plant nonspecific and corporate expenses to plant specific expenses and other customer service and corporate expense categories.	$3,379	$3,379
Finding #2: 47 C.F.R. § 36.611(h) – Loop Counts: The Beneficiary included 16 nonrevenue producing loops (nonworking loops) in its 2011 HCP filings, which overstated total working loops and category 1.3 loops.	($7,776)	($7,776)
Finding #3: 47 C.F.R. § 54.7(a) and 47 C.F.R. § 65.450(a) – Expenses Improperly Included in Regulated Expenses: The 2011 cost study included $1,347,418 of expenses that were not related to provisioning, maintaining, or upgrading telecommunications services (disallowed expenses). Based on the results of this finding, the audit scope was expanded to the 2009, 2010, 2012, and 2013 cost studies. The 2009 cost study included $322,502 of disallowed expenses. The 2010 cost study included $502,246 of disallowed expenses. The 2012 cost study included $488,210 of disallowed expenses. The 2013 cost study included $233,559 of disallowed expenses.	$335,910	$335,910
Total Net Monetary Effect - Overpayment	**$331,513**	**$331,513**

USAC Management Response

USAC management concurs with the findings identified by the auditors. 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	Finding Total
Finding #1	$43	$2,460	$876	$3,379
Finding #2	$129		($7,905)	($7,776)
Finding #3	$292,625	$223,087	($179,802)	$335,910
Mechanism Total	**$292,797**	**$225,547**	**($186,831)**	**$331,513**

As a result of the audit, USAC management will recover $331,513 of High Cost Program support from the Beneficiary for SAC #442134.

Background and Program Overview

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunications services, including local service, to residential and business customers residing in south Texas.

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 Intercarrier Compensation support (CAF ICC): CAF ICC support replaced LSS and is available to ILEC's to assist them in recovering a portion of the revenue requirement related to switching investment that is not covered by the access recovery charge (ARC) billed to the end user or certain other charges billed to other carriers. This revenue requirement was frozen based on forecasted switching investment filed by eligible carriers in 2011 and is being reduced by 5% per year. 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, and K; Part 36, Subpart 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 twelve-month period ended December 31, 2013.

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)	12/31/2011	12/31/2013	$124,704
High Cost Loop Support (HCLS)	12/31/2011	12/31/2013	$1,241,064
Interstate Common Line Support (ICLS)	12/31/2011	12/31/2013	$829,398
Local Switching Support (LSS)	12/31/2011	12/31/2013	$136,170
Total			**$2,331,336**

EXPANDED SCOPE

The expanded scope included a review of corporate expenses for the two years prior to and the two years after the original scope and did not contemplate any other procedures outlined in the audit methodology section. The following charts summarize the Universal Service High Cost Program support that was added to the scope of this audit relating to disallowed expenses found in the original audit scope:

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	12/31/2009	12/31/2011	$0
High Cost Loop Support (HCLS)	12/31/2009	12/31/2011	$1,281,318
Interstate Common Line Support (ICLS)	12/31/2009	12/31/2011	$911,856
Local Switching Support (LSS)	12/31/2009	12/31/2011	$452,640
Total			**$2,645,814**

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	12/31/2010	12/31/2012	$359,346
High Cost Loop Support (HCLS)	12/31/2010	12/31/2012	$1,219,029
Interstate Common Line Support (ICLS)	12/31/2010	12/31/2012	$996,036
Local Switching Support (LSS)	12/31/2010	12/31/2012	$314,070
Total			**$2,888,481**

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	12/31/2012	12/31/2014	$281,754
High Cost Loop Support (HCLS)	12/31/2012	12/31/2014	$1,770,493
Interstate Common Line Support (ICLS)	12/31/2012	12/31/2014	$829,110
Local Switching Support (LSS)	12/31/2012	12/31/2014	$0
Total			**$2,881,357**

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	12/31/2013	12/31/2015	$349,320
High Cost Loop Support (HCLS)	12/31/2013	12/31/2015	$1,925,875
Interstate Common Line Support (ICLS)	12/31/2013	12/31/2015	$1,357,914
Local Switching Support (LSS)	12/31/2013	12/31/2015	$0
Total			**$3,633,109**

AUDIT METHODOLOGY

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

Reconciliation – We reconciled the December 31, 2011 and 2010, 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.

Expenses – We utilized an attribute sampling methodology to select expense samples from operating expense accounts that impact HCLS, ICLS, LSS, 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. In addition, we compared the classification of labor categories to industry averages for reasonableness. We reviewed benefits and clearings for compliance with Part 32 and a month was selected for testing. Benefits as a percentage of labor was reviewed for consistency between expense categories.

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. Additionally, we summarized disbursements by vendor and reviewed the listing for reasonableness.

Affiliate Transactions – We performed procedures to assess the reasonableness of affiliate transactions that occurred during the period under audit. These transactions involve the transfer of assets or the provision of service between the Beneficiary and another entity with common ownership. We noted affiliates of Riviera Telephone include Colston Enterprises, Inc. (holding company), Riviera Cellular & Telecommunications, Inc., and Riviera Communications. The Beneficiary engages in transactions with each of these affiliates. 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:

- Labor and Benefit Distributions – The charges are at actual cost and are charged to affiliates based on actual labor hours worked.
- Local Telephone Service – The charges were billed at established tariffed rates in place at the time of service.

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, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54, Subparts C, D, and K, Part 36, Subpart 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, 2013.

FINDING No. 1: HC2015BE079-F01: 47 C.F.R. § 54.202(e) and 47 C.F.R. § 54.320(b) – UNSUPPORTED ADJUSTMENTS TO LABOR TIME STUDIES

Condition –
Payroll expense allocations for two employees selected for testing were based on labor time studies. The Beneficiary was unable to provide supporting documentation for adjustments to the studies. Unsupported adjustments noted were as follows:

- Reductions of the following accounts in amounts listed:
  - 1190.7 – Other Accounts Receivable RCT (nonregulated) $1,137
  - 6533 – Testing Expense $3,234
  - 6623 – Customer Service Expense $6,901
  - 6723.4 – HR Expense Other $1,063
- Increases of the following accounts in amounts listed:
  - 6212 – Digital Switching Expense $10,136
  - 6624 – Customer Service Expense $1,142
  - 6721.4 – Accounting Expense – Other $1,057

Cause –
The Beneficiary's system of internal controls over payroll expense allocations did not identify the need to maintain supporting documentation for labor expense coding that deviates from documented labor time studies.

Effect –
The exception identified resulted in payroll expense reclassifications, which impacted HCLS, ICLS, and LSS disbursements. The total monetary impact of this finding relative to disbursements for the twelve-month period ended December 31, 2013, is estimated to be an overpayment of $3,379 and is summarized by support mechanism as follows:

Support Type	Monetary Effect
HCLS	$876
ICLS	$43
LSS	$2,460

Recommendation –
The Beneficiary should maintain supporting documentation for adjustments to payroll expense allocations that deviate from its documented labor time studies to ensure compliance with FCC Rules.

Beneficiary Response –
The Company will take action to ensure that payroll expenses are assigned or allocated among the accounts according to documented cost allocation procedures per FCC Rules. Documented procedures include time records, time studies, or management review of employee activities relevant to the period in which cost allocations are made.

FINDING No. 2: HC2015BE079-F02: 47C.F.R. § 36.611(h) – LOOP COUNTS

Condition –
The Beneficiary over reported category 1.3 loops and total working loops by including 16 nonrevenue producing test lines in its 2011 HCP filings.

Cause –
The processes to review, approve, and prepare the HCP filings for 2011 failed to detect the inclusion of nonrevenue producing test lines in the Beneficiary's 2011 HCP filings.

Effect –
The exception identified above overstated category 1.3 loops and total loops by 16 in the Beneficiary's HCP filings, which impacted HCLS and ICLS disbursements. The total monetary impact of this finding relative to disbursements for the twelve-month period ended December 31, 2013, is estimated to be an underpayment of $7,776 and is summarized by support mechanism as follows:

Support Type	Monetary Effect
HCLS	($7,905)
ICLS	$129

Recommendation –
The Beneficiary should implement a process to review and approve its loop classifications for purposes of reporting accurate working loop counts in its HCP filings to ensure compliance with FCC Rules.

Beneficiary Response –
Riviera Telephone agrees that it overstated its category 1.3 loop count which reduced HCLS recovery. The Company will implement improved loop reporting and review procedures so that loops are counted accurately and categorized correctly.

FINDING No. 3: HC2015BE079-F03: 47 C.F.R. § 54.7(a) and 47 C.F.R. § 65.450(a) – EXPENSES IMPROPERLY INCLUDED IN REGULATED EXPENSES:

Condition –
The Beneficiary included expenses for the following cost study years and related HCP filings for sponsorships, charitable donations, food and entertainment, gifts, and membership dues in corporate operations expense that were not required to provision, maintain, and upgrade facilities and services.

Year	Total Expenses
2009	$322,502
2010	$502,246
2011	$1,347,418
2012	$488,210
2013	$233,559

Cause –
The process to review, approve, and prepare the cost studies and related HCP filings did not identify and adjust for the expenses that should be excluded from regulated expenses.

Effect –
The exceptions identified above resulted in an overstatement of regulated expenses reported in the HCP filings by $2,893,935, which impacted HCLS, ICLS and LSS disbursements.

The monetary impact from removing regulated expenses positively affected HCLS due to the Rules requiring the imputation of income taxes for subchapter S corporations. The removal of regulated expenses increased the amount of taxable income used in the Beneficiary's income tax imputation for the calculation of its HCLS, which caused HCLS to increase. In addition, the Beneficiary exceeded the corporate operations expense limitation for each of the years reviewed which reduced the monetary impact of the finding.

The monetary impact of this finding relative to disbursements for the twelve-month period ended December 31, 2013, and for the expanded scope for the twelve-month periods ending December 31, 2011, 2012, 2014, and 2015 is estimated to be an overpayment of $335,910 and is summarized by support mechanism by disbursement period as follows:

Support Type	Monetary Effect – 2011	Monetary Effect - 2012	Monetary Effect - 2013	Monetary Effect – 2014	Monetary Effect – 2015	Total Monetary Effect
HCLS	($38,850)	($28,084)	($84,138)	($26,378)	($2,352)	($179,802)
ICLS	$42,264	$69,509	$182,311	($1,431)	($28)	$292,625
LSS	$34,405	$54,972	$133,710	$0	$0	$223,087

Recommendation –
The Beneficiary should implement policies and procedures to ensure the proper classification of expenses in accordance with FCC rules.
Beneficiary Response –

Riviera Telephone Company (RTC) has reviewed 47 C.F.R. § 54.7(a) and 47 C.F.R. § 65.450(a), the two rules of the Federal Communications Commission ("FCC") which were used as the basis for this finding. The Company understands that as a rate-of-return carrier receiving high cost support, the Company may not include expenses in its revenue requirement unless such expenses are recognized by the FCC as "necessary to the provision" of interstate telecommunications services and that the universal service support the company receives must be used "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."

Under the Criteria section in which the rules under Finding #3 are discussed, the report cites Public Notice FCC 15-133 ("PN") in footnote 1. This PN was released in October 2015 and reminds all eligible telecommunications carriers of their obligations under 47 C.F.R. § 54.7(a) and 47 C.F.R. § 65.450(a). The PN also provides (for the first time to RTC's knowledge) a "non-exhaustive list of expenditures that are not necessary for the provision of supported services and therefore may not be recovered through universal service support." PN at 2. RTC observes that the items listed under Finding #3, which were found to have been improperly included - sponsorships, charitable donations, food, gifts, and membership dues – are among those items listed in the PN. Accordingly, it appears that the categories of expense noted in the finding were derived from this PN. RTC wants to make it abundantly clear that until the release of the PN in October 2015, the Company had no reason to believe that such expenses were to be excluded. To the Company's knowledge, no list of expenditures, such as those enumerated in the PN, existed during the period of time that was examined under this finding (2009 – 2013). If RTC had been aware of such a list, the Company certainly would have excluded the expenses. During that period of time, RTC fully believed that its accounting practices were in conformity with these rules and with the "used and useful" standards historically employed by the FCC. RTC operated under the belief that expensing costs related to corporate image, sponsorships - including indirect marketing and advertising available regulated services - and charitable contributions to the community was permitted as a normal cost of doing business.

Further, subsequent to the release of the PN, the FCC recognized in paragraph 341 of its Further Notice of Proposed Rulemaking associated with its USF Reform Order released on March 30, 2016 (FCC 16-33) ("FNPRM"), that "some of these enumerated types of expenditures are quite broad" and sought comment on "whether there is a definable subset of expenditures within any of the categories that should not be excluded from a carrier's interstate revenue requirement", and, "if we ultimately decide some of these expense categories, or a portion of them, should be allowed in a carrier's interstate revenue requirement, whether similar treatment should be accorded those expenses for the purposes of high-cost support." Accordingly, because the items listed under Finding #3 are among the "broad" categories enumerated in the PN that are under review, RTC respectfully requests that USAC wait for further clarification from the FCC before excluding these expenses which may or may not ultimately be deemed "used and useful." If the expenses discussed in this finding are disallowed either in total or in part, but are later approved for recovery then RTC would be unfairly penalized.

RTC and its owners have always made reasonable efforts to interpret and comply with FCC rules related to expenses considered "used and useful" in the provision of regulated services.

This includes the expenses which have been excluded under Finding #3 which were ones that the Company believed at that time were "used and useful." With respect to the period of time, which was subject to the audit; however, RTC respectfully disagrees with exclusion of the expenses based upon the fact that the broad categories of expenses were not known to RTC during that time period, and the Company had no reason to believe that such expenses were to be excluded. In any event, USAC should not exclude expenses for the period of time which was not subject to the original audit.

Additionally, in light of the FNPRN and the aforementioned, the Company is concerned about the expansion of the scope of the audit. The Government Auditing Standards (Yellowbook) in Chapter 6 states "Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included."[1] (emphasis added).

USAC's own website where USAC provides an overview of the Beneficiary and Contributor Audit Program (BCAP) communicates that "An announcement letter is sent detailing the purpose and scope of the audit, identifying the personnel who will be performing the audit, making a request for pertinent documentation, and stating the date upon which the documentation is due." (emphasis added). As indicated above both USAC and AUDIT COMPANY's announcement letters state the scope of this audit is for funds received during the twelve-month period ended December 31, 201X.
Therefore, we respectfully request USAC apply audit findings to the year under review, pending further clarification from the FCC.

Auditor Response –
As described in the criteria section below, the *High-Cost Oct. 19, 2015 Public Notice* was not a new guidance. It was a reminder as to what costs should not be included in USF filings under existing rules. The costs noted in this finding were not for the provision, maintenance, or upgrading facilities and services for which the support was intended. Specifically, the significant costs we noted in our finding included approximately $1.1 million for charity hunts, approximately $405,000 for a youth organization, approximately $480,000 for charity livestock auctions, approximately $175,000 for health system foundations, approximately $120,000 for county program sponsorships, and approximately $30,000 for sporting event sponsorships. Therefore, our position is unchanged as to this matter.

[1] Government Auditing Standards 2011 Revision, Chapter 6 "Field Work Standards for Performance Audits" Section 6.09 Page 127

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 54.202(e)(2011)	All eligible telecommunications carriers shall retain all records required to demonstrate to auditors the support received was consistent with the universal service high-cost program rules. These records should include the following: data supporting line count filings; historical customer records; fixed asset property accounting records; general ledgers; invoice copies for the purchase and maintenance of equipment; maintenance contracts for the upgrade or equipment; and any other relevant documentation. This documentation must be maintained for at least five years from the receipt of funding.
	47 C.F.R. § 54.320(b)(2012)	All eligible telecommunications carriers shall retain all records required to demonstrate to auditors the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.
#2	47 C.F.R. § 36.611(h)(2011)	For rural telephone companies, as that term is defined in [47 C.F.R.] §51.5 of this chapter, the number of working loops[3] for each study area. For nonrural telephone companies, the number of working loops for each study area and for each wire center. For universal service support purposes, working loops are defined as the number of working Exchange Lines C&WF loops used jointly for exchange and message telecommunication service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing.
#3	47 C.F.R. § 54.7 (2011)	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

[3] Appendix to Part 36 further defines a working loop as a revenue producing pair of wires, or its equivalent, between a customer's station and the central office from which the station is served.

Finding	Criteria	Description
	47 C.F.R. § 65.450(a)(2011)[2]	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.

[2] 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 pursuant to 47 U.S.C. §254(e) and Commission rules. *See All Universal Service High-Cost Support Recipients are Reminded that Support Must be Used for its Intended Purpose*, WC Docket Nos. 10-90 and 14-58, Public Notice, 30 FCC Rcd 11821 (2015) (*High-Cost Oct. 19, 2015 Public Notice*).

Attachment D

HC2016BE044

Hood Canal Telephone Company
Audit ID: HC2016BE044
(SAC No.: 522419)

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

Prepared for: Universal Service Administrative Company

As of Date: October 24, 2017

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

TABLE OF CONTENTS

KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

EXECUTIVE SUMMARY

October 24, 2017

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

Dear Mr. Scott:

This report presents the results of our work conducted to address the performance audit objectives relative to Hood Canal Telephone Company ("Beneficiary" or "HCTC"), Study Area Code ("SAC") No. 522419, for disbursements, of $962,937, made from the federal Universal Service High Cost Program ("HCP") during the twelve-month period ended December 31, 2015. Our work was performed during the period from November 3, 2016 to October 24, 2017, and our results are as of October 24, 2017.

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

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as FCC Orders governing federal Universal Service Support for the HCP (collectively, the "Rules") relative to disbursements, of $962,937, made from the HCP during the twelve-month period ended December 31, 2015. Compliance with the Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit. It should be noted that the Beneficiary was unwilling to represent to these compliance responsibilities in writing within a management representation letter obtained as a standard audit practice.

As our report further describes, KPMG identified six findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the HCP for the twelve-month period ended December 31, 2015 were $127,389 higher than they would have been had the amounts been reported properly.

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated October 24, 2017.

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

Very truly yours,

KPMG LLP

List of Acronyms

Acronym	Definition
ARC	Access Recovery Charge
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF	Connect America Fund
COE	Central Office Equipment
CPRs	Continuing Property Records
ETC	Eligible Telecommunications Carrier
FCC	Federal Communications Commission
Form 509	Interstate Common Line Support Mechanism Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
HCC	Hood Canal Communications
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
HCM	High Cost Model
HCP	High Cost Program
HCTC	Hood Canal Telephone Company
ICC	Intercarrier Compensation
ILEC	Incumbent Local Exchange Carrier
IOT	Information Origination/Termination
MLB	Multi-Line Business
NECA	National Exchange Carrier Association
PBO	Payroll, Benefits and Overhead
RJB	RJB Telecommunications Corp.
SAC	Study Area Code
SLB	Single-Line Business
SLC	Subscriber Line Charge
SNA	Safety Net Additive
South Shore	South Shore Enterprise, LLC
SVS	Safety Valve Support
TB	Trial Balance
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery[1]
<u>HC2016BE044-F01: Improper Allocation Methodology</u> – The Beneficiary understated the allocation of the following asset and expense accounts to non-regulated activities: Account 2110 (Land and Support Assets), Account 6710 (Planning and Executive Expenses), and Account 6720 (General and Administrative Expenses).	$115,822	$115,822
<u>HC2016BE044-F02: Lack of Documentation: Assets</u> – The Beneficiary was unable to provide underlying documentation to support the inclusion of one of the assets selected for testing related to C&WF – Underground Fiber on the HCP Forms.	$ 8,752	$ 8,752
<u>HC2016BE044-F03: Misclassified Expenses</u> – The Beneficiary inappropriately categorized travel expenses related to a non-regulated business conference totaling $1,097 as regulated expenses in Account 6710 (Executive Expenses). Additionally, the Beneficiary inappropriately included expenses not necessary to the provision of HCP supported services in regulated Account 6720 (General and Administrative Expenses) and on the HCP Forms.	$ 4,027	$ 4,027
<u>HC2016BE044-F04: Miscategorized Cable & Wire Facilities</u> –The Beneficiary utilized incorrect route costs and category balances within the 2013 C&WF Cost Study, which caused the Cost Study Average C&WF Category 1 balance to be understated.	($ 1,298)	($ 1,298)
<u>HC2016BE044-F05: Inaccurate Loop Counts:</u> The Beneficiary understated Category 1.3 and Total Loops by one loop in the 2014-1 HCL Form.	$ 576	$ 576
<u>HC2016BE044-F06: Inaccurate Revenues</u> – The Beneficiary overstated SLC Revenue by $490 on the 2013 Form 509.	($ 490)	($ 490)
Total Net Monetary Effect	**$127,389**	**$127,389**

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

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	HCL	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$39,601	$76,221	$115,822	
Finding #2	$ 1,642	$ 7,110	$ 8,752	
Finding #3	$ 1,238	$ 2,789	$ 4,027	
Finding #4	($ 174)	($1,124)	($ 1,298)	
Finding #5		$ 576	$ 576	
Finding #6	($ 490)		($ 490)	
Mechanism Total	**$41,817**	**$85,572**	**$127,389**	

As a result of the audit, USAC management will recover $127,389 of High Cost Program support from the Beneficiary for SAC #522419.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

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

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

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as FCC Orders governing federal Universal Service Support for the HCP relative to disbursements, of $962,937, made from the HCP during the twelve-month period ended December 31, 2015.

Beneficiary Overview

HCTC (SAC No. 522419), the subject of this performance audit is a rural ILEC located in Union, Washington that serves over 850 customers in western Washington. HCTC provides telephone, cable television and broadband services to its customers.

HCTC is a division of Hood Canal Communications ("HCC") and has a sister division Cable Vision, which provides non-regulated services. HCTC is a subsidiary of RJB Telecommunications Corp. ("RJB"), a Subchapter S Corporation, which owns 100 percent of HCTC and Cable Vision. Additionally, the majority shareholder of RJB

Telecommunications has a 100 percent ownership in South Shore Enterprise, LLC ("South Shore"), which leases equipment and rental properties.

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

High Cost Support	Data Period	Disbursement Period	Disbursement Amount
Connect America Fund (CAF) Intercarrier Compensation (ICC)	July 1, 2013 - June 30, 2014	January 1 to December 31, 2015	$167,814
High Cost Loop (HCL)	January 1 to December 31, 2013	January 1 to December 31, 2015	$355,443
Interstate Common Line Support (ICLS)	January 1 to December 31, 2013	January 1 to December 31, 2015	$439,680
Total			**$962,937**

Source: USAC

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

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

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

OBJECTIVES

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as FCC Orders governing federal Universal Service Support for the HCP relative to disbursements, of $962,937, made from the HCP during the twelve-month period ended December 31, 2015.

SCOPE

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

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

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

PROCEDURES

1. General Procedures

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

2. Materiality Analysis

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

3. Reconciliation

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

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

4. Assets

KPMG utilized a monetary unit sampling methodology to select asset samples from material accounts identified in the relevant HCP Forms. Asset selections were made from CPR details, and material accounts included COE, C&WF and certain general support asset accounts. We determined that asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the work orders and verified proper Part 32 categorization; and validated the physical existence of selected assets.

5. Expenses

KPMG utilized a monetary unit sampling methodology to select expense samples from material accounts identified in the relevant HCP Forms. Expense selections were selected via monetary unit sampling from material operating expense accounts identified in the relevant HCP Forms (HCL and ICLS). Expense amounts were agreed to the supporting documentation such as invoices and were reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

6. HCP Eligibility Forms

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

7. COE Categorization

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

8. C&WF Categorization

KPMG reviewed the methodology established by the Beneficiary for C&WF categorization including the process for updating the network map and C&WF cost studies. We validated that C&WF amounts reconciled to studies and that amounts agreed to the HCL form data and also performed a route distance inspection.

9. Payroll, Benefits and Overhead

KPMG performed a walkthrough of the PBO process and selected a work order from the CPR sample selected for asset testing to perform flow-through payroll testing, tracing the transaction from the work order to the individual timesheet through the payroll process to the G/L. Additionally, we reviewed overhead clearing reports for a selected month and reviewed the overhead clearance process for compliance with Part 32 requirements.

10. Taxes

KPMG determined the tax filing status for the Beneficiary and obtained and reviewed the federal and state tax filings for 2013. KPMG reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness and developed an expectation of the effective tax rate.

Additionally, we reviewed the Part 64 apportionment of operating tax account balances and evaluated the reasonableness of cost allocation methods.

11. Part 64 Cost Allocations

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

12. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions relating to the leases between South Shore and HCTC that occurred during 2013. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the sample selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and categorized in the appropriate Part 32 accounts.

13. Revenues, Subscriber Listings and Billing Records

KPMG examined revenue G/L accounts, invoices and other related documentation to verify the accuracy and existence of revenue account balances. KPMG analyzed subscriber listings and billing records to determine that the number and type of lines reported in the HCP filings agreed to underlying support documentation that subscriber listings did not include duplicate lines, invalid data, or non-revenue producing or non-working loops, and that lines were properly classified as residential/single-line business or multi-line business.

14. Revenue Requirement

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

As part of our performance audit procedures, KPMG obtains a management representation letter that serves to formally document management's acknowledgement of their responsibilities with respect to compliance with applicable FCC Rules and Regulations and maintenance of internal controls over compliance activities. The Beneficiary made extensive modifications to KPMG's standard representations, and removed references to these compliance responsibilities.

RESULTS

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

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

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

Finding # HC2016BE044-F01: 47 C.F.R. Section 64.901(a),(b)(2)-(3) (2013) – Improper Allocation Methodology

CONDITION

(a) The Beneficiary utilized a time study to allocate the majority of executive payroll 90 percent to regulated and 10 percent to non-regulated activities. However, the Beneficiary's total company payroll allocations were 54 percent regulated and 46 percent non-regulated. As the executive time allocations were inconsistent with the rest of the business and we were unable to determine a business reason for the discrepancy, KPMG determined that the allocation of executive time in its entirety should approximate the rest of the business (54 percent to regulated and 46 percent to non-regulated activities). This executive time study allocation factor was used to allocate several asset and expense accounts between regulated and non-regulated activities.

(b) The Beneficiary utilized a "Big Three" expense factor to allocate common costs in Accounts 6710 and 6720 (General and Administrative expense accounts) to regulated and non-regulated activities. The "Big Three" factor was determined based on the total regulated and non-regulated allocations of COE, IOT, C&WF, Network Operations, and Marketing and Services Expense Accounts, resulting in allocation factors of 86 percent to regulated and 14 percent to non-regulated activities. This Big Three expense allocation factor did not take into consideration non-regulated expenses recorded in the Beneficiary's 7990 accounts that were supported by the corporate operations expense accounts. Therefore, KPMG utilized all of the Beneficiary's expenses (excluding Accounts 6710 and 6720) to compute revised allocation factors of 53 percent to regulated and 47 percent to non-regulated activities. KPMG determined that a more appropriate general allocator would be based upon all expenses to determine a regulated and non-regulated allocation factor to apply to the Beneficiary's General and Administrative expense accounts. It is also noted that Account 6710 – Executive and Planning Expense no longer exists as a Part 32 account as it has been eliminated by the FCC and any expenses recorded in Account 6710 are required to be recorded in Account 6720 – General and Administrative Expense. However, the reclassification of expenses from Account 6710 to Account 6720 had no impact to the monetary effect noted below.

KPMG recalculated HCTC's non-regulated allocations using the adjusted allocation factors above and noted that the regulated balances in the following asset and expense accounts were overstated per the amounts below:

- Account 2110 (General Support Assets): $128,752
- Account 6120 (General Support Expense): $27,841
- Account 6120 (General Support Expense - Benefits): $3,293
- Account 6710 (Executive and Planning Expense): $107,914

- Account 6710 (Executive and Planning Expense – Benefits): $15,359
- Account 6720 (General and Administrative Expense): $118,265
- Account 6720 (General and Administrative Expense - Benefits): $15,720

CAUSE

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

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $115,822 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$76,221	$76,221
ICLS	$39,601	$39,601
Total	**$115,822**	**$115,822**

RECOMMENDATION

The Beneficiary should review the executive payroll factor and allocation method for Accounts 6710 and 6720 so that the common cost allocation methodologies and results accurately reflect the overall business activities of the company to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

(a) According to the Code of Federal Regulations (CFR) Part 64.901, costs shall be directly assigned to either regulated or non-regulated services whenever possible. HCTC uses the direct assignment method for payroll and expense items. The President, Rick, directly assigned his time throughout the 2013 year on his payroll timesheets. To further ensure the payroll costs were properly categorized, HCTC performed a time study in 2010. During the cost study preparation, Rick's payroll allocation was compared to the 2010 time study allocation and a cost study adjustment was made to increase the payroll and benefits for non-regulated payroll and benefits to 10% of his total payroll based on the 2010 time study. Mike Oblizalo, Plant Manager (currently serving as General Manager) handles the day to day operations for regulated and nonregulated services. Rick's focus is the Company's core business telephone service. Rick served on the boards of the Washington Exchange Carrier Association and the Washington Independent Telephone Associations. In addition, the 2011 Transformation Order further increased the time Rick was spending on regulatory issues in 2013. Rick spends his time predominantly on the telecommunication regulatory issues and operations which has been reflected on his payroll timesheets and adjusted based on the time study. Regardless of the total payroll allocation of all employees, we don't feel that the allocation should be revised based on payroll allocations of all Company employees and disagree with this finding. We feel appropriate allocation procedures were performed in the 2013 cost study by adjusting Rick's payroll allocation to agree to the 2010 time study and no reallocation should be applied.

(b) As noted above, HCTC directs assign its costs which includes the 7990 nonregulated accounts. The corporate operations booked to accounts 6710 and 6720 are regulated costs. The reason you have 53%/47% regulated/nonregulated factor to begin with is because labor has been direct assigned by HCTC. If no direct assignment of costs were recorded in accounts 6710 and 6720 to begin with, then we could understand the logic behind this approach, but direct assignment was assigned to both regulated and nonregulated accounts. You are treating the booked 6710 and 6720 regulated costs (before Part 64 allocations) as a general overhead cost that you want to reallocate to regulated and non-regulated based on ALL costs. The Big 3 factor combines regulated Plant Specific, Plant Nonspecific and Customer Operations Part 64 allocation amounts and applies it to the 6710 and 6720 regulated Corporate Operations costs excluding direct assigned costs such as Interstate accounting services, legal fees and dues. Refer to CFR Part 36.392(c) and Part 69.409.

Also, since all costs have been directly assigned in the corporate operation accounts with any payroll and related benefits being directly assigned and adjusted to agree to the most recent time study completed and therefore all nonregulated expenses have been properly recorded to the nonregulated accounts, the proposed Part 64 adjustment using a 47% nonregulated allocation appears to be taking those same total nonregulated expenses and applying it to the regulated expenses again, in essence double dipping by applying a gross nonregulated allocation back on expenses that have been direct assigned to regulated operations and nonregulated expenses that were removed but now are also included in the nonregulated factor proposed.

The double dipping issue was slightly rectified in account 6710 by removing the Presidents payroll and benefit costs before Part 64 allocation but only after it was brought to the USAC auditor's attention. However, their same methodology was not applied to account 6720.1 and 6720.4. For account 6720.1 and 6720.4, direct assigned payroll and benefits costs of $136,623 and $10,936 should be removed before the USAC auditors Part 64 allocations in a similar fashion as account 6710 revised calculation noted above at a minimum. See attached schedule demonstrating the above.

In addition, if the logic behind this proposed allocation is attributed to a nonregulated division of the Company, why wouldn't a consolidated group with regulated entities and nonregulated entities that have separate general ledgers as HCTC and its division have, not have a similar principle applied to the consolidated group expenses and Part 64 allocations? In essence then, nonregulated expenses recorded in the 7990 accounts or nonregulated entities are to now be taken into account when applying an expense factor to the regulated common costs in accounts 6710 and 6720. We know that is not done for the very reasons stated.

We strongly disagree with this finding. The Big 3 factor is a commonly used factor throughout the industry and we feel that it's appropriately applied to the 6710 and 6720 accounts in the Part 64 allocations.

See the Beneficiary's schedule relating to their response for this finding below.

HOOD CANAL TELEPHONE COMPANY
PART 64 - NONREGULATED/REGULATED ALLOCATION OPERATING EXPENSES
FOR THE STUDY YEAR ENDED DECEMBER 31, 2013

		JSP ALLOCATION			INTERPRETATION OF USAC AUDITOR			
	DISTRIBUTION	ADJUSTED BALANCES PER STUDY	NON REGULATED	REGULATED	ADJUSTED BALANCES PER STUDY	NON REGULATED	REGULATED	Add'l NR Costs Removed per Auditor Proposal
A/C 6710 EXEC & PLANNING EXPENSE:								
6710.10 Executive Expense	NOTE 1 Ⓐ	Ⓑ 335,380	48,171	287,209	Ⓒ 19,778	9,292	10,486	
					Ⓔ 168,801		168,801	
6711.00 Directors Fees	Direct	0	0	0	0	0	0	
Direct Assignment	Direct	0	0	0	0	0	0	
TOTAL EXECUTIVE EXPENSE		335,380	48,171	287,209	188,579	9,292	179,287	107,921
A/C 6720 GENERAL AND ADMINISTRATIVE EXPENSE:								
6720.10 Accounting & Finance	NOTE 1	Ⓑ 231,380	33,234	198,146	Ⓕ 231,380	108,702	122,678	
6720.11 Accounting Services - Direct	Direct	Ⓑ 36,060	0	36,060	36,060		36,060	
6720.12 General Accounting	NOTE 1	0	0	0	0	0	0	
6720.30 Insurance	NOTE 1	0	0	0	0	0	0	
6720.50 Relief & Pensions	NOTE 1	0	0	0	0	0	0	
6720.55 Miscellaneous	NOTE 1	0	0	0	0	0	0	
6720.60 Telephone	NOTE 1	0	0	0	0	0	0	
6720.70 Dues	Direct	Ⓑ 17,474	0	17,474	17,474		17,474	
6720.80 Subscriptions	Direct	0	0	0	0	0	0	
6720.90 Office Utilities	NOTE 1	0	0	0	0	0	0	
6722.10 Dividend Expense	NOTE 1	0	0	0	0	0	0	
6722.20 Regulatory	Direct	0	0	0	0	0	0	
6722.30 External Relations	NOTE 1	0	0	0	0	0	0	
6722.40 Public Relations	NOTE 1	0	0	0	0	0	0	
6724 Information Management	NOTE 1	0	0	0	0	0	0	
6725 Attorney Fees	Direct	Ⓑ 14,043	0	14,043	14,043		14,043	
6720.40 Other General & Admin Expense	NOTE 1	Ⓑ 131,251	18,852	112,399	Ⓕ 131,251	61,662	69,589	
TOTAL GENERAL & ADMIN EXPENSE		430,208	52,086	378,122	430,208	170,364	259,844	118,278
TOTAL CORPORATE OPERATIONS		765,588	100,257	665,331	618,787	179,656	439,131	226,200
					Ⓓ 146,801	79,399	226,200	
NOTE 1: Allocated on the total of the Big Three Expenses which include:								
PLANT SPECIFIC OPERATIONS:								
A/C 6210/6220/6230 COE Expenses		307,172	0	307,172				
A/C 6310 IOT Equip. Expenses		0	0	0				
A/C 6410 C&WF Expenses		135,716	0	135,716				
PLANT NONSPECIFIC OPERATIONS:								
A/C 6530 Network Operations Expenses		156,398	0	156,398				
CUSTOMER OPERATIONS:								
A/C 6610 Marketing Expenses		41,374	0	41,374				
A/C 6620 Services Expenses		549,760	170,983	378,777				
TOTAL		1,190,420	170,983	1,019,437	0	0	0	
DISTRIBUTION		1.000000	0.143632	0.856368		0.469800	0.000000	

Instead of Big 3 proposed factor by USAC auditor

Ⓑ *Costs that have already excluded nonregulated based on direct assignment by Hood Canal*
Ⓕ *Account #6720.10 and #6720.40 includes direct assigned regulated payroll/benefits of $136,623 and $10,936*

JW EXPENSES 1 5/8/2017 2:19 PM

HOOD CANAL TELEPHONE COMPANY
PART 64 - NONREGULATED/REGULATED ALLOCATION
OPERATING EXPENSES
FOR THE STUDY YEAR ENDED DECEMBER 31, 2013

	JSP	USAC Audit	
Rick Buechel Salary	303,588	314,328	10,740
Direct assigned to nonregulated labor expense 5.09%	15,440	15,440	
JSP 2010 Time Study Allocator adjust up to 10%, use 4.91%	4.91%		
USAC Auditor Proposed Allocation adjust up to 46.09%, use 41.18%		41.18%	
Nonreg portion	14,930	129,434	
Benefits of Executive	89,049	89,049	
JSP 2010 Time Study Allocator	4.91%		
USAC Auditor Proposed Allocation		41.18%	
Nonreg portion	4,372	36,670	
CS Adjustment to nonreg before Part 64 allocations	19,302	166,104 D	146,802
Account 6710 Book balance	354,683	354,683	
Remove nonreg portion	(19,302)	(166,104)	
Adjusted balance per study before Part 64 allocations	A 335,381	188,579	
Other expenses direct assigned in account 6710	C	19,778	
Regulated PR/Benefits - Rick Buechel per USAC Auditors	E	168,801	

JW EXPENSES

KPMG RESPONSE

KPMG reviewed the Beneficiary's response and disagrees with the following points: the 100% direct assignment of corporate expenses, the time study percentages utilized during 2013, and the "Big Three" factor used for the Part 64 cost allocations.

KPMG noted that the Beneficiary does directly assign many costs, but not all costs. The corporate operations expenses recorded in Account 6710 (prior to any adjustments made by either the Beneficiary or KPMG) include executive salaries not directly assigned to non-regulated activities, as well as other regulated and non-regulated corporate operations expenses. The corporate operations expenses recorded in Account 6720 include costs related to both regulated and non-regulated activities. As there are no corresponding non-regulated 7990 Accounts related to Accounting/Finance and Other General & Administrative expenses, this indicates that no costs were directly assigned to non-regulated activities related to these specific sub-accounts.

Additionally, KPMG believes that although the executive (Mr. Rick Buechel) directly assigned their time throughout the year, and ultimately the Beneficiary relied on the 2010 Executive's time study that noted 90% time allocation to regulated accounts and a 10% allocation to non-regulated accounts, this does not align with the Company's regulated and non-regulated operational activities as demonstrated by the Company's overall payroll and expense allocations for 2013. KPMG noted the time study applied to 2013 was based on a period of one week in December 2010, without any update for changes in the business. KPMG also noted that the executive spent at least one entire week during 2013 at a conference dedicated to non-regulated activities, which was not reflected in the executive's timesheets or in the time study. Further, multiple line items classified as solely regulated within the time study appeared to include both regulated and non-regulated activities. Therefore, KPMG believes that the appropriate allocation should have been 53% to regulated and 47% to non-regulated as this would approximate the Beneficiary's activities for 2013 as stated above.

KPMG also noted that the Beneficiary, (despite stating that Accounts 6710 and 6720 contained solely regulated costs due to direct assignment), actually allocated certain common costs to non-regulated activities as part of the cost study process. However, KPMG noted that the "Big Three" apportionment factor utilized by the Beneficiary was calculated using post cost study adjustment amounts, and did not take into consideration the non-regulated expenses recorded in the Beneficiary's 7990 Accounts that were supported by general and administrative activities recorded in the corporate operations expense accounts. KPMG recalculated this factor to more accurately represent all of the expenses incurred by the Company, excluding interest, taxes, and the 6710 and 6720 Accounts in question. The original factor and KPMG's recalculation are shown below:

Original "Big Three" Factor Calculation:

Account	Total	Regulated	Non-Regulated
6210/6220/6230 COE	$ 307,172	$ 307,172	$ -
6310 IOT	$ -	$ -	$ -
6410 C&WF	$ 135,716	$ 135,716	$ -
6530 Network Operations Expense	$ 156,398	$ 156,398	$ -
6610 Marketing	$ 41,374	$ 41,374	$ -
6620 Services	$ 549,760	$ 379,777	$170,983
TOTAL	**$1,190,420**	**$1,019,437**	**$170,983**
Percentage	100%	86%	14%

KPMG's Revised Factor Calculation:

Account	Total	Regulated	Non-Regulated
Plant Specific Operations Accounts (6110 through 6410)	$ 925,888	$ 925,888	$ -
Plant Non-Specific Operations Accounts (6530 through 6540)	$ 171,641	$ 171,641	$ -
Depreciation Accounts (6560)	$ 187,414	$ 187,414	$ -
Customer Operations Accounts (6610 through 6620)	$ 420,151	$ 420,151	$ -
6720.15 – Accounting & Finance – Interstate	$ 36,060	$ 36,060	$ -
6720.3 – Legal	$ 14,043	$ 14,043	$ -
6720.DUES – Dues	$ 17,474	$ 17,474	$ -
Non-Regulated Expense Accounts (7990)	$1,570,496	$ -	$1,570,496*
TOTAL	**$3,343,167**	**$1,772,671**	**$ 1,570,496**
Percentage	100%	53%	47%

** Includes all amounts directly assigned or attributed to the non-regulated 7990 Accounts, including the $170,983 in Services Expenses per the Original "Big Three" Factor Calculation table above.*

KPMG noted that Account 6710.10 – Executive and Planning originally contained the Executive's salary, including both the regulated and non-regulated portions. The cost study adjustment removed the non-regulated portion of the Executive's salary, leaving only the regulated portion in the account. To avoid double allocating the Executive's salary to non-regulated activities, KPMG excluded the Executive's salary and benefits from the revised allocation process, thus only allocating the remaining executive expenses to regulated and non-regulated activities using the recalculated factor, which more accurately represents a general allocator.

KPMG followed the same methodology as the Beneficiary in allocating common costs included in the 6720 Accounts, which contained both regulated and non-regulated costs per inspection of the G/L. However, KPMG used the recalculated factor, which more accurately represents a general allocator, rather than the "Big Three" factor used by the Beneficiary. KPMG noted the Beneficiary stated in their attached schedule that the payroll and benefits included in the 6720 Accounts were directly assigned and should be excluded, similar to how the Executive's salary was excluded for Account 6710. However, KPMG noted that there were no cost study adjustments removing the non-regulated portion of payroll and benefits related to general and administrative activities, such as accounting, as there was with the Executive's salary, thus the same logic cannot apply.

Finding # HC2016BE044-F02: 47 C.F.R. Section 54.320(b) (2013) – Lack of Documentation: Assets

CONDITION

For one of 28 asset samples tested, underlying support documentation for a C&WF (Underground Fiber) asset could not be provided in support of the asset balance of $50,822, resulting in overstatements in the following accounts:

- Account 2410 (C&WF): $50,822
- Account 3100-2410 (Accumulated Depreciation – C&WF): $22,870
- Account 6560-2410 (Depreciation Expense – C&WF): $2,541

CAUSE

The Beneficiary did not have adequate documentation retention policies to validate the existence of assets posted to the G/L.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $8,752 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$7,110	$7,110
ICLS	$1,642	$1,642
Total	**$8,752**	**$8,752**

RECOMMENDATION

The Beneficiary should maintain documentation supporting the balances of assets for the life of the respective assets to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

It was our impression based on previous conversations that this would be a nonmonetary finding regarding this asset. Once it became apparent that there was a monetary impact, HCTC continue to do research on this matter. This asset related to a work order labeled RUS Grant Squaxin that was split between regulated and nonregulated service areas. HCTC was able to provide support for the initial work order and general ledger records showing the full amount of the work order $547,704 was initially closed to regulated assets of underground fiber $494,008 and underground conduit $53,696 in 2004. Later an adjustment of $475,721 was posted to reclassify the nonregulated portion of the asset out of the underground fiber account. HCTC CPR records showed $50,822 for underground fiber and $53,696 for underground conduit. However, only $18,287 out of the $50,822 could be supported ($494,008 minus $475,721). HCTC has done further research on the matter, discovering that the fiber allocation between regulated and nonregulated should of have been 80% based on the fiber cable footage for regulated 14,646' and nonregulated 56,590' instead of 87% which was used on the total closed work order amount initially. This would mean only $438,163 should have been reclassified to nonregulated instead of $475,721, a difference of $37,558. By taking the $37,558 plus $18,287 equals $55,845 this amount is over the $50,822 CPR recorded amount. Based on this new information, we feel that the monetary impact amount should be recalculated to zero.

KPMG RESPONSE

The Beneficiary provided general ledger records showing amounts related to an RUS Grant work order. The CPR entry selected for testing was listed as “RUS Grant (in Study Area)”, but did not specify a related work order or other unique identifier that would enable the general ledger documentation provided to be uniquely associated with this entry. Further, the general ledger records provided did not reconcile to either the individual CPR entry of $50,822 or to the sum of multiple CPR entries. The Beneficiary attempted to reconcile the amounts, but was unable to do so. Since the documentation provided does not reconcile to the CPRs, and since the documentation provided cannot be specifically identified as related to this CPR entry as opposed to other RUS grant-related CPR entries, KPMG cannot conclude that sufficient supporting documentation was retained for this asset as required by FCC Rules.

Finding # HC2016BE044-F03: *All Universal Service High-Cost Support Recipients Are Reminded That Support Must Be Used For Its Intended Purpose*, WC Docket Nos. 10-90 and 14-58, Public Notice, 30 FCC Rcd. 11821 (2015) – Misclassified Expenses

CONDITION

For one of 29 expense items sampled, the Beneficiary inappropriately categorized expenses totaling $1,097 related to a non-regulated business trip to regulated activities in Account 6710 (Executive Expense) instead of coding these expenses to a non-regulated account.

Additionally, for two of 29 expense items sampled, the Beneficiary inappropriately included expenses recorded in Account 6720 (General and Administrative Expenses) totaling $5,656 for an employee Christmas party and $1,000 for political contributions in the HCP Forms. These expenses should have been excluded from the HCP Forms as they were not necessary to the provision of HCP supported services.

CAUSE

The Beneficiary did not have adequate preparation, review and approval processes to evaluate the proper inclusion of only expenses necessary to the provision of HCP supported services in the HCP Forms.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $4,027 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$2,789	$2,789
ICLS	$1,238	$1,238
Total	**$4,027**	**$4,027**

RECOMMENDATION

The Beneficiary should develop and implement procedures to review transactions and ensure only expenses necessary to the provision of HCP supported services are included in the HCP Forms in accordance with FCC Rules and Orders.

BENEFICIARY RESPONSE

We agree to this finding and will take appropriate steps in the future to remove these types of costs.

Finding # HC2016BE044-F04: 47 C.F.R. Section 36.154(a) (2013) – Miscategorized Cable & Wire Facilities

CONDITION

For the 2013 C&WF Cost Study, the Beneficiary utilized 2012 route costs instead of 2013 route costs for one of their routes. Additionally, the Beneficiary used incorrect Toll and Exchange line costs for one of their routes. The use of incorrect route cost data resulted in an understatement of the reported Cost Study Average C&WF Category 1 balance by $4,958.

CAUSE

The Beneficiary utilized incorrect route cost balances to populate the 2013 C&WF categorization study.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an under-disbursement of $1,298 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	($1,124)	($1,124)
ICLS	($ 174)	($ 174)
Total	**($1,298)**	**($1,298)**

RECOMMENDATION

The Beneficiary should enhance policies and procedures governing the calculation and reporting of C&WF Category 1 balance.

BENEFICIARY RESPONSE

We agree to these findings.

Finding # HC2016BE044-F05: 47 C.F.R. Section 36.611(h) (2013) – Inaccurate Loop Counts

CONDITION

Category 1.3 Loops (911) and Total Loops (913) reported on the 2014-1 HCL Form filing were understated by one loop, when compared to the Category 1.3 Loops (912) and the Total Loops (914) per source documentation.

CAUSE

The Beneficiary did not have controls in place to correctly report the underlying access lines used to determine USF loops.

EFFECT

The exception identified has an impact on HCL disbursements. The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $576 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$576	$576
Total	**$576**	**$576**

RECOMMENDATION

The Beneficiary should enhance its preparation, review and approval processes over the accuracy of access line and loop count information reported on the HCL Form to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

We agree to these findings.

Finding # HC2016BE044-F06: 47 C.F.R. Section 54.903(a)(4) (2013) – Inaccurate Revenues

CONDITION

SLC revenues reported on the 2013 Form 509 were overstated by $490 when compared to source documentation.

CAUSE

The preparation, review and approval processes governing the calculation and reconciliation of SLC revenues did not detect a variance from the G/L.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an under-disbursement of $490 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
ICLS	($490)	($490)
Total	**($490)**	**($490)**

RECOMMENDATION

The Beneficiary should enhance policies and procedures governing the accurate calculation and reporting of SLC revenues.

BENEFICIARY RESPONSE

We agree to these findings.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. Section 64.901(a) and (b)(2), (3) (2013)	"Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein…. Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities."
#2	47 C.F.R. Section 54.320(b) (2013)	"All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors."
#2, #4, #5	47 C.F.R. Section 32.12(b) (2013)	"The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission."
#3	47 U.S.C §254(e)	"After the date on which Commission regulations implementing this section take effect, only an eligible telecommunications carrier designated under section 214(e) of this title shall be eligible to receive specific Federal universal service support. A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Any such support should be explicit and sufficient to achieve the purposes of this section."

Finding	Criteria	Description
#3	*All Universal Service High-Cost Support Recipients Are Reminded That Support Must Be Used For Its Intended Purpose*, WC Docket Nos. 10-90 and 14-58, Public Notice, 30 FCC Rcd 11821 (emphasis in original)	"Under Federal law, high-cost support provided to an ETC must be used 'only for the provision, maintenance and upgrading of facilities and services for which the support is intended'…. [T]he *non-exhaustive* list of expenditures that are not necessary for the provision of supported services and therefore may not be recovered through universal service support [includes]: … Entertainment; … Food, including but not limited to meals to celebrate personal events…; Political contributions."
#4	47 C.F.R. Section 36.154(a) (2013)	"Exchange Line C&WF—Category 1. The first step in apportioning the cost of exchange line cable and wire facilities among the operations is the determination of an average cost per working loop. This average cost per working loop is determined by dividing the total cost of exchange line cable and wire Category 1 in the study area by the sum of the working loops described in subcategories listed below. The subcategories are: Subcategory 1.1—State Private Lines and State WATS Lines. This subcategory shall include all private lines and WATS lines carrying exclusively state traffic as well as private lines and WATS lines carrying both state and interstate traffic if the interstate traffic on the line involved constitutes ten percent or less of the total traffic on the line... Subcategory 1.3—Subscriber or common lines that are jointly used for local exchange service and exchange access for state and interstate interexchange services."
#5	47 C.F.R. Section 36.611(h) (2013)	"For universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing."
#5	47 C.F.R. Section 69.104(g) (2013)	"A line shall be deemed to be a residential line if the subscriber pays a rate for such line that is described as a residential rate in the local exchange service tariff."
#5	47 C.F.R. Section 69.104(h) (2013)	"A line shall be deemed to be a single line business line if the subscriber pays a rate that is not described as a residential rate in the local exchange service tariff and does not obtain more than one such line from a particular telephone company."
#6	47 C.F.R. Section 54.903(a)(4) (2013)	"Each rate-of-return carrier shall submit to the Administrator on December 31st of each year the data necessary to calculate a carrier's Interstate Common Line Support, including common line cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line Interstate

Finding	Criteria	Description
		Common Line Support amounts in the final two quarters of the following calendar year to the extent of any differences between the carrier's ICLS received based on projected common line cost and revenue data and the ICLS for which the carrier is ultimately eligible based on its actual common line cost and revenue data during the relevant period.”

CONCLUSION

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 applicable to the disbursements made from the HCP during the twelve-month period ended December 31, 2015 identified improper allocation methodology, lack of supporting documentation for assets, misclassified expenses, miscategorized C&WF, inaccurate loop counts and inaccurate revenues findings. Detailed information relative to the findings is described in the Findings, Recommendations and Beneficiary Responses section above.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	$ 85,572
ICLS	$ 41,817
Total Impact	**$127,389**

KPMG recommends that the Beneficiary determine and utilize an executive payroll factor and general allocator which accurately reflects the activity of the business as a whole when allocating shared assets and expenses to non-regulated activities, maintain documentation supporting asset balances included in the HCP Forms, develop and implement procedures to review expenses and ensure only expenses necessary to the provision of HCP supported services are included in the HCP Forms, and enhance policies and procedures to ensure C&WF Category 1 balances, access lines, loop counts and SLC revenues are reported accurately in the HCP Forms.

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

INFORMATION ITEM

High Cost Support Mechanism Business Update

Information Presented:

This information item provides the High Cost & Low Income (HCLI) Committee with a quarterly status report on the operation of the High Cost (HC) Support Mechanism for 4th Quarter 2017 (4Q2017). The update includes information on ongoing HC operations, as well as major HC initiatives.

Discussion:

Program Highlights – 4Q2017

- As of the end of December 2017, USAC has disbursed final Mobility Fund payments totaling $116.97 million, completing Mobility Fund disbursements for 92 percent of Mobility Fund Phase I (MF I) winning bids and 64 percent of Tribal Mobility Fund Phase I winning bids.

- On November 1, 2017, the Federal Communications Commission's (FCC or Commission) Wireline Competition Bureau (WCB) released a Public Notice (PN) that directs USAC to retain any excess cash in the HC account at the end of 2017 and not to consider that amount in determining the contribution factor for the 1st Quarter 2018 (1Q2018). This PN does not change any prior Commission decisions regarding the overall Connect America Fund (CAF) Budget.

- On November 6, 2017, WCB, the Wireless Telecommunications Bureau, and the Office of Engineering and Technology released a PN seeking comments to refresh the record regarding performance measures for certain Connect America HC universal service support recipients, including price cap carriers, rate of return carriers, Rural Broadband Experiments (RBE) recipients, and CAF Phase II auction winners. The Commission is seeking comment on whether the same testing method options and parameters should be required for all HC recipients that receive support for fixed locations, and if not, what different options or parameters should be used to measure performance.

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

- See **Attachment B** for additional updates on major projects.

<u>High Cost Support Mechanism Operational Update</u>

2018 High Cost Budget
The proposed 2nd quarter 2018 (2Q2018) HC Budget reflects our plans to continue investing in existing operations and new work. The critical success factor for the HC program is our continued commitment to invest in people, process improvement, innovation and the selective use of technology. For the 2Q2018 Program Budget, HC plans include an investment in the following Request for Proposals (RFPs).

- MF I – Renegotiation of verifications contract.
  - In collaboration with the contracted vendor and FCC, USAC has successfully closed out the 3G build-out verifications. With approximately ten percent of 4G non-tribal verifications and 20 percent of tribal verifications, it is imperative that we continue these services to complete the remaining verifications which are projected to be completed during 2018.
- Statistician for Verifications
  - In 2017, we utilized services through a statistician firm (Econometrica) to help deliver reliable sampling plans that will be used for the CAF Phase II verifications. We will continue to push forward with our statisticians to further develop programs and plans for the remaining CAF programs in 2018. It is imperative that we implement these sampling plans to ensure program integrity and accurate broadband deployment.

In 2Q2018, we will continue to push forward with the planning, designing, development, service transition and implementation of the CAF Phase II Auctions and Mobility Fund Phase II (MF II) challenge process. New work for 2018 will also include the continued management and support of MF II, CAF Broadband Loop Support (BLS) and Alaska Plan Challenge Processes, CAF Phase II Auction, High Cost Universal Broadband (HUBB) system modifications, HC form updates, business analytics/reporting and other initiatives.

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

Disbursements

HC disbursed approximately $3.91 billion in support through October 2017 (see details below). This includes, $1.49 billion to 187 Price Cap (PC) study area codes (SACs), $1.89 billion to 1,095 Rate of Return (RoR) SACs, and $537 million to 379 Competitive Eligible Telecommunications Carrier (CETC) SACs.

Carrier Regulation Type	Total Amount	Total SACs
PC	$ 1,487,516,914.29	233*
RoR	$ 1,885,461,174.80	1,095
CETC	$ 537,425,003.97	379
Total	**$ 3,910,403,093.06**	**1,707**

*Note: Number of SACs for PC carriers increased from 187 to 233 due to CAF I Incremental Support Round 2 Year 2 recoveries from CenturyLink in August support.

Program Budget
The annual HC $4.5 billion cap remains in effect until the Commission takes further action. USAC continues to monitor the annual budget and notify the FCC when demand over four consecutive quarters (exclusive of demand for programs funded by the HC reserve account[1]) is projected to exceed $4.5 billion. Disbursements have never exceeded the quarterly amount. USAC will continue to monitor actual and projected disbursement activity (segregating demand for components of support funded from the reserve from other support components).

Beginning with the 1Q2018 Demand Filing, USAC projected demand for the HC program based on actual projected program demand. Quarterly collections will not be capped at $1.125 billion. However, demand for four consecutive quarters exclusive of demand funded by the reserve should not exceed $4.5 billion. USAC will not collect funds for incremental A-CAM support, which were pre-funded on December 31, 2017, with a $1.768 billion from the cash balance in the HC account. USAC will monitor HC account cash balances to ensure funding is sufficient to establish the reserve.

Additionally, as required by the FCC Order 16-33, USAC is required to calculate the total support available for distribution to RoR carriers. In order to remain within the annual rate of return budget, USAC applies the FCC Budget Control Mechanism (BCM) to reduce support for carriers subject to High Cost Loop Support (HCLS) (including Safety Net Additive (SNA) and Safety Valve Support (SVS)) and CAF BLS support. The BCM calculation limits the rate-of-return support to $2 billion annually. Additionally, upon FCC review and approval, in January 2018 (December 2017 disbursements), USAC will process BCM prior period adjustments for the period of September 2016 through June

[1] Rural Broadband Experiments (RBE), ACAM, CAF Phase II Transition, CAF Phase II Auction, Mobility Fund Phase I, CAF Phase I Round 1 and Round 2.

2017 as a result of changes to the BCM process beginning July 2017. These changes to the BCM conform the application of the BCM to true-ups for past periods.

<u>Certification Compliance</u>

54.314 Annual Certifications
States and carriers met the November 17, 2017 deadline for the 54.314 annual certification filing for all SACs. 100 percent of the states and carriers timely filed their annual 54.314 Certification.

FCC Form 481
The FCC Form 481 collects financial and operational data from HC recipients in accordance with 47 C.F.R. § 54.313 and from Lifeline recipients in accordance with 47 C.F.R. § 54.422. Eligible telecommunications carriers (ETCs) are required to submit the form by July 1 to USAC, the FCC, state commissions, tribal authorities and other relevant authorities. For the July 3, 2017 deadline, 1754 SACs or 99.66% carriers timely filed and certified the Form 481 in USAC systems.

HC staff are coordinating with FCC personnel on significant updates planned for the July 2018 FCC Form 481. PRA approval will be obtained by FCC staff in regards to eliminating several sections of the form and adding new requirements related to the Alaska Plan and BLS reporting for study areas where deployment is 80 percent or greater.

FCC Form 481 In-Depth Validations (IDVs)
Upon the conclusion of the July filing, FCC Form 481 data is extracted from the system to begin a focused review of line items where responses indicate potential non-compliance. The review is divided up into three distinct phases. The first phase is to identify potential exceptions, the second phase focuses on reviewing high priority sections of the FCC Form 481, and the third phase focuses on reviewing low priority sections. We have completed the first two phases, and phase three was completed at the end of 2017. Though some high priority results have already been provided to the Commission, the team anticipates delivering full IDV results by the end of December 2017.

FCC Form 690
The FCC Form 690 collects drive test data and certifications from HC recipients in accordance with 47 C.F.R. § 54.1009. ETCs receiving MF I support are required to submit the form by July 3, 2017 to USAC. 100 percent of Mobility carriers timely filed their annual Form 690.

Broadband Deployment Compliance

Wireline Verifications

Carriers that elect to participate in the CAF programs are required to report the location where they have deployed broadband.[2] Millions of locations are expected to be submitted to USAC, and the HC division is responsible for verifying that carriers build broadband networks in compliance with FCC rules and requirements. As part of our on-going efforts to improve the verification process, the HC team has engaged Econometrica, in coordination with USAC and the Commission, to develop statistical sampling methodologies in support of testing location data. Sampling plans have been developed for CAF Phase I Incremental Support (CAF Phase I) and RBE and are currently being applied to on-going verification efforts. The CAF Phase II sampling plan draft was delivered to the FCC, and the team is currently responding to the Commission's feedback in coordination with Econometrica.

In July 2017, CAF Phase I and RBE participants reported location data via the FCC Form 481. The HC team continues to perform Round 2 validations and anticipates validations for Round 2 should conclude by the end of 2017. Manual RBE location validations are up-to-date. RBE location data will be submitted and validated in the HUBB, beginning in March 2018 at which point the verification team will no longer perform any manual validations of HC funds. On-going verification activities for CAF I and RBE are in progress with an anticipated completion date of by the end of 2017 for CAF I Round 1 and the first quarter of 2018 for Round 2. Upon certification of 100 percent deployment in the RBE program, the verification team's goal is to close out the review within 120 days.

Finally, in November 2017, USAC's Corporate Assurance team of the Internal Audit Division (IAD) initiated reviews of the compilation, validation, and verification process associated with CAF Phase I Round 2 and RBE programs. HC verification team staff are providing documentation and having discussions as required. We anticipate that the reviews will last through the first quarter of 2018.

Mobility Fund Verifications

Recipients of the MF I program are required to report drive test or scattered site test data for all eligible road miles, including the three required FCC key performance indicators (KPI) of download speed, upload speed, and latency, with coordinates, of where wireless

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

service has been deployed using federal Universal Service Fund (USF) dollars via the FCC Form 690. The HC program is responsible for ensuring compliance for the data submitted by the carriers. USAC first performs a desk validation of the data and subsequently has engineer-contractors conduct on-site drive tests (i.e., site visit verifications). As of November 2017, HC has completed site visit verifications for 56,007 road miles of the total 63,698 awarded road miles. For Tribal Mobility, 40,587 of the total population of 56,932 were verified.

Governance and Cost Controls

During 4Q2017, the HC division continued to refine a standardized process for the intake of new FCC orders and projects that will enable the operations to better manage and collaborate with key project stakeholders from the inception of an order to the final implementation. This process will ensure proper and accurate management of scope, time and cost of all HC projects and FCC Orders and instructions. The process is being enhanced with formal governance and change control processes. The process is currently in use with the recent release of the *Mobility Fund Phase II Order*.

The HC division has also implemented a change control process that works in concert with HC's standard FCC Order intake process, IT Demand Process and executive steering committees to ensure that all activities supporting operations, systems, processes, and practices are aligned with the USAC's corporate governance structure. Similar meetings are held at a regular cadence to inform our FCC colleagues of progress and are critical to ensure the appropriate alignment between USAC and the FCC. Furthermore, the HC team has worked diligently to update all policy and procedures consistent with today's standards and continues to monitor for improvement and integrity.

Appeals

In August 2016, the HC division received two appeals of audits conducted by external auditors as part of the Beneficiary and Contributor Audit Program (BCAP). The HC division completed its review of both appeals. Currently, both draft appeal decision letters are under review by the USAC Office of General Counsel (OGC). High Cost staff is working closely with and will continue to engage the USAC OGC, the IAD, and external auditors, as needed, to resolve the outstanding issues.

Training & Outreach

HUBB Filing Deadline Outreach
The HC division ramped up outreach in 4Q2017 to prepare carriers and their consultants for the upcoming March 2018 HUBB filing deadline. We developed (and obtained WTB signoff on) a detailed communications plan to inform and educate carriers participating in funds subject to the deadline (CAF II, ACAM, CAF-BLS, RBE and Alaska Plan). We updated the HUBB resources page on the HC website, as well as the FAQ on the resources page, and created user guides to walk carriers through the process of uploading, validating and certifying data with the HUBB. We drafted weekly emails to send to

carriers in the weeks leading up to the filing deadline. In addition, we hosted the first of several webinars and delivered presentations at key industry meetings and conferences (such as the NECA Expo, where we also hosted a booth). These sessions provided an overview and demo of the HUBB, as well as an explanation of geolocation best practices and a preview of the public maps that will be developed with the HUBB data.

HUBB User Testing

The HC division worked with the User Experience (UX) team in 4Q2017 to conduct HUBB usability testing with a cross section of PC and RoR carriers to gather feedback on the system and test various design assumptions. The testing looked for inconsistencies and usability problems within the user interface and in the content, including navigation errors, presentation errors and control usage problems. After the March 2018 filing deadline, we will reach back out to carriers and consultants to gather their feedback and input (through additional usability testing and focus groups) to continue to improve the system design and functionality. This type of engagement will be particularly important as we continue to refine the HUBB.

High Cost Open Data Initiative

HC worked with the USAC Open Data team in 4Q2017 to support development of and help promote the CAF Map (a public map that will depict non-confidential deployment data filed with the HUBB to show where carriers are building out broadband using USF support) and the High Cost Open Data Initiative (an interactive map displaying High Cost disbursement data by fund at a state level). We included an overview of the projects in industry presentations and webinars. We are also helping gather input and feedback from stakeholders such as state broadband leaders and state public utility commissions to understand how they would use the map and what kind of data and functionality/analytics they want to see. We will expand this outreach in 2018 as these projects continue to develop and as we prepare for a public launch of the CAF Map following the March HUBB filing deadline.

Mobility Fund Phase II Outreach

The HC program geared up in 4Q2017 to prepare for outreach in 2018 to support implementation of the MF II program, starting with the MF II challenge process. HC will be reaching out to parties likely to participate in the challenge process and the auction to make them aware of these efforts, educate them on how they will work, and ensure they are able to participate if they so choose.

HC will conduct this outreach using email communications, website content and webinars as needed, and will be coordinating with trade groups such as CTIA, the Competitive Carriers Association and the Rural Wireless Association (as well as state and local government associations such as the National Association of Regulatory Utility Commissioners (NARUC) and National Association of Telecommunications Officers and Advisors (NATOA)) to leverage their reach).

Attachment A

HC Charts - Business Metrics:

Figure 1

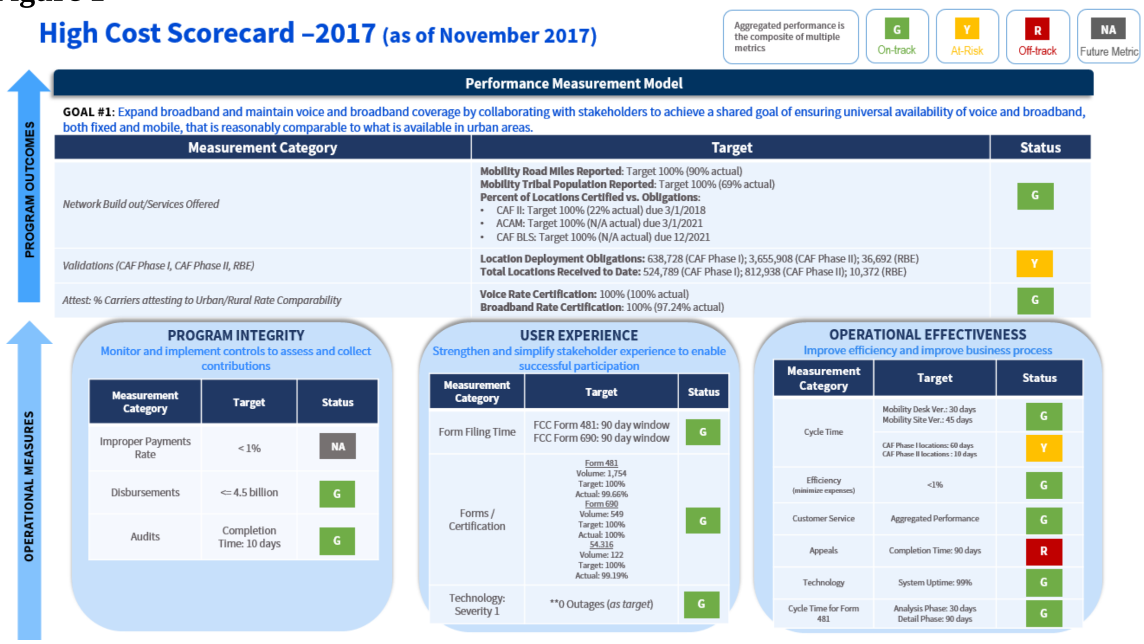


Figure 2

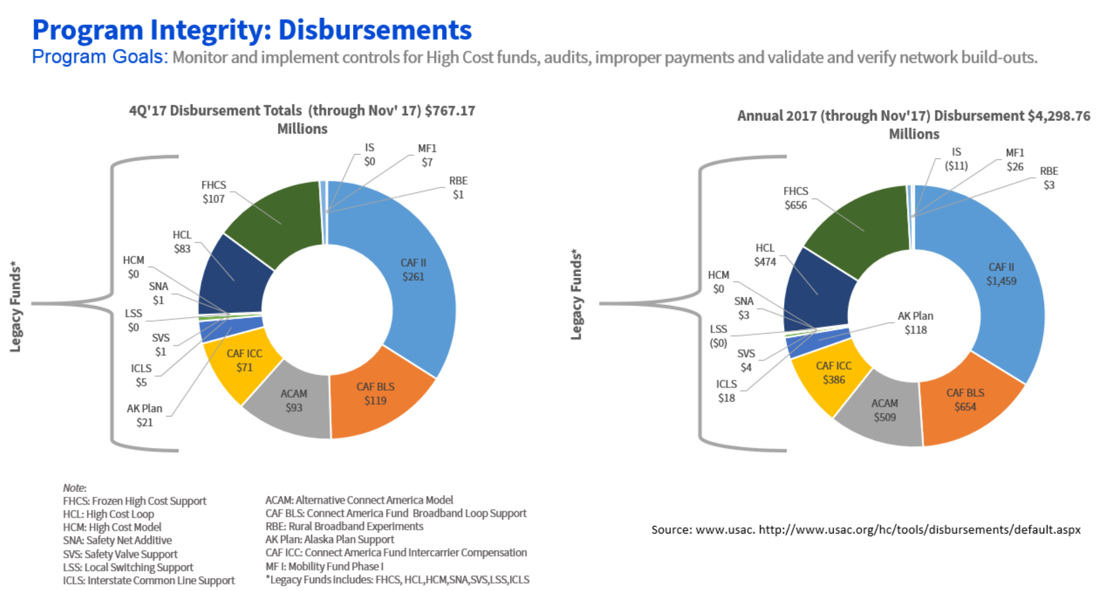


Figure 3

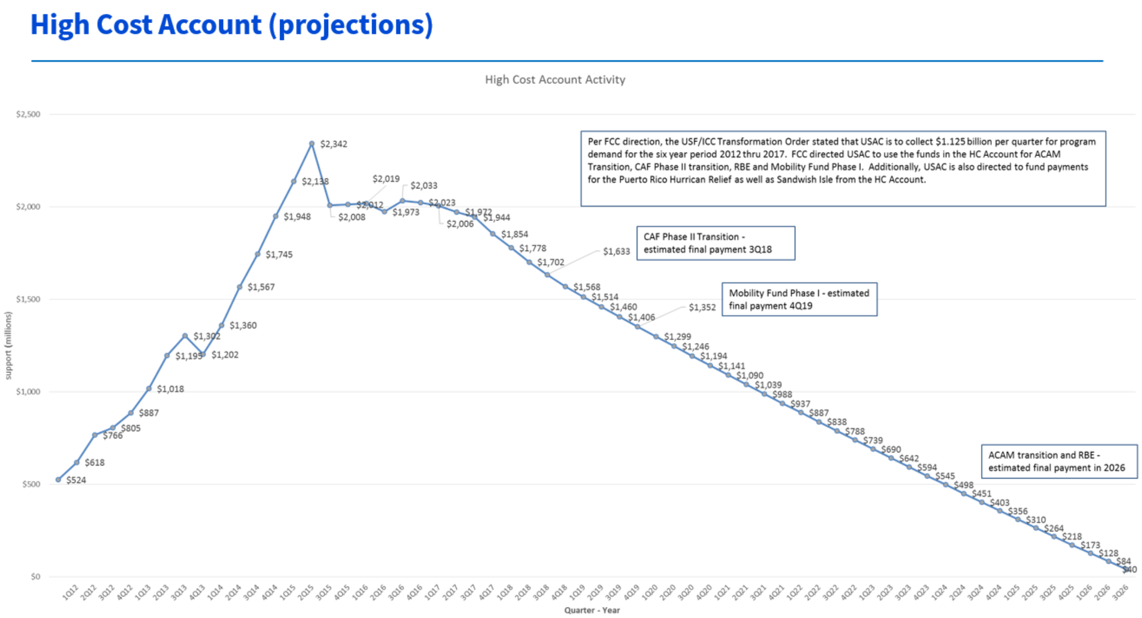


Figure 4 - Mobility Fund Phase I Verifications – Road Miles

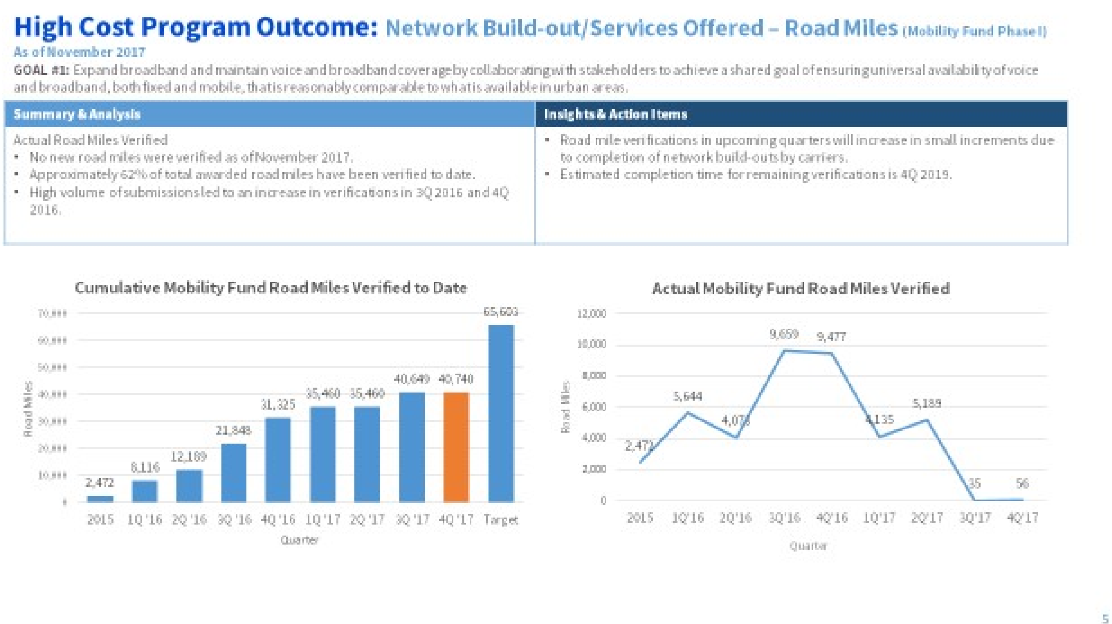


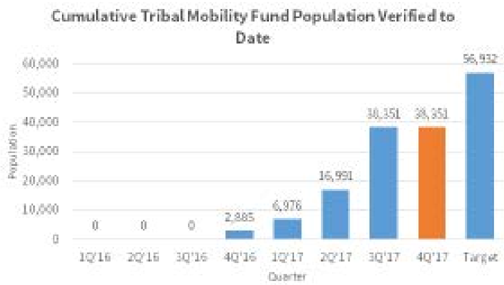
Figure 5 – Mobility Fund Phase I Verifications – Tribal Population

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

As of November 2017

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

Summary & Analysis	Insights & Action Items
Actual Population Verified • No population was verified as of November. • Population verification began in 4Q 2016. • As of November 2017, about 69% of the total population served has been verified.	• Population verification is scheduled for completion by July 2018.

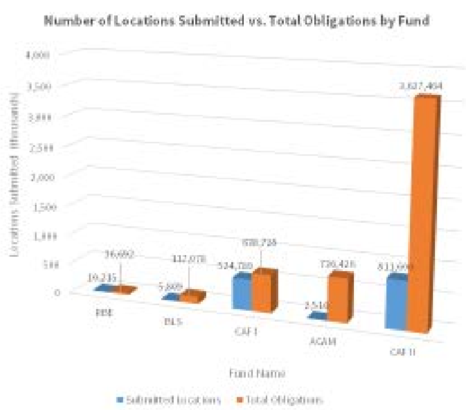


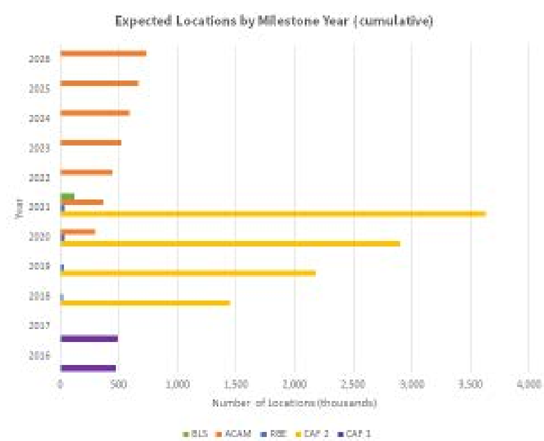
6

Figure 6

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

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





7

Figure 7

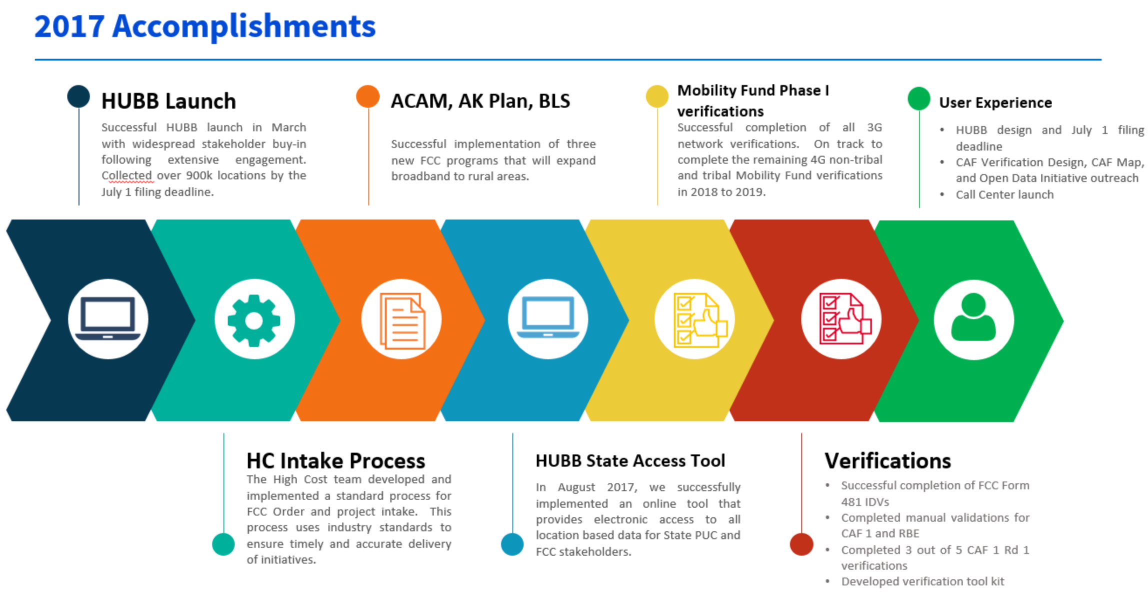


Figure 8

1Q2018 to 2Q2018 (look ahead)

PROGRAM INTEGRITY

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

- Finalization of the CAF Phase II verification process and artifacts
- Complete CAF Phase I Round 2 verification
- HUBB Portal Phase 1 enhancements
- Continue Mobility Fund Phase 1 verifications

USER EXPERIENCE

Strengthen and simplify user experience to enable successful participation.

- HUBB Outreach– Engagement with Rate of Return and other carriers facing March 2018 filing deadline, as well as ongoing usability testing
- MF II Outreach – Education and outreach to wireless carriers and state and local government officials to support MF II implementation, including Challenge Process
- High Cost Open Data Outreach – Engagement and communications with broad range of industry and civil society stakeholders about High Cost Open Data initiative and CAF Map
- Compliance Outreach – Outreach to carriers and consultants to educate them about how the CAF verification process will work and what will be expected of them

OPERATIONAL EFFECTIVENESS

Continuously improve the efficiency and effectiveness of business processes.

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

High Cost

HCLI Committee Meeting

January 29, 2018

Universal Service
Administrative Co.

High Cost Scorecard –2017 (as of November 2017)

Aggregated performance is the composite of multiple metrics

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

PROGRAM OUTCOMES

Performance Measurement Model

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

Measurement Category	Target	Status
Network Build out/Services Offered	**Mobility Road Miles Reported**: Target 100% (90% actual) **Mobility Tribal Population Reported**: Target 100% (69% actual) **Percent of Locations Certified vs. Obligations**: • CAF II: Target 100% (22% actual) due 3/1/2018 • ACAM: Target 100% (N/A actual) due 3/1/2021 • CAF BLS: Target 100% (N/A actual) due 12/2021	G
Validations (CAF Phase I, CAF Phase II, RBE)	**Location Deployment Obligations:** 638,728 (CAF Phase I); 3,655,908 (CAF Phase II); 36,692 (RBE) **Total Locations Received to Date:** 524,789 (CAF Phase I); 812,938 (CAF Phase II); 10,372 (RBE)	Y
Attest: % Carriers attesting to Urban/Rural Rate Comparability	**Voice Rate Certification:** 100% (100% actual) **Broadband Rate Certification**: 100% (97.24% actual)	G

OPERATIONAL MEASURES

PROGRAM INTEGRITY

Monitor and implement controls to assess and collect contributions

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

USER EXPERIENCE

Strengthen and simplify stakeholder experience to enable successful participation

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

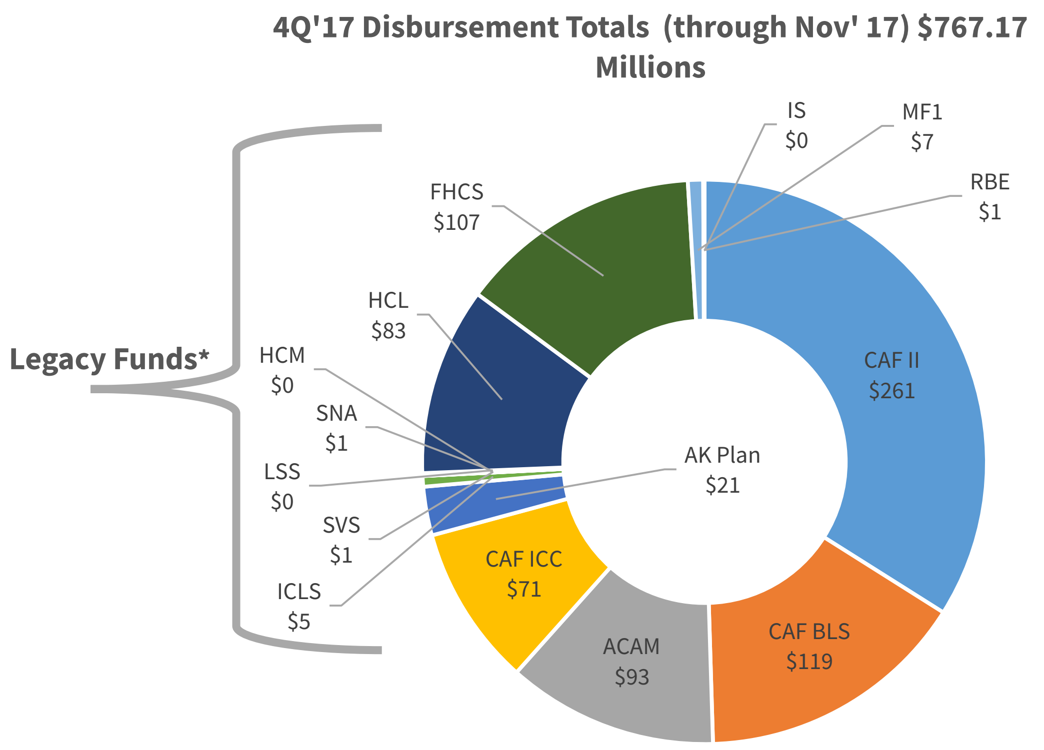
OPERATIONAL EFFECTIVENESS

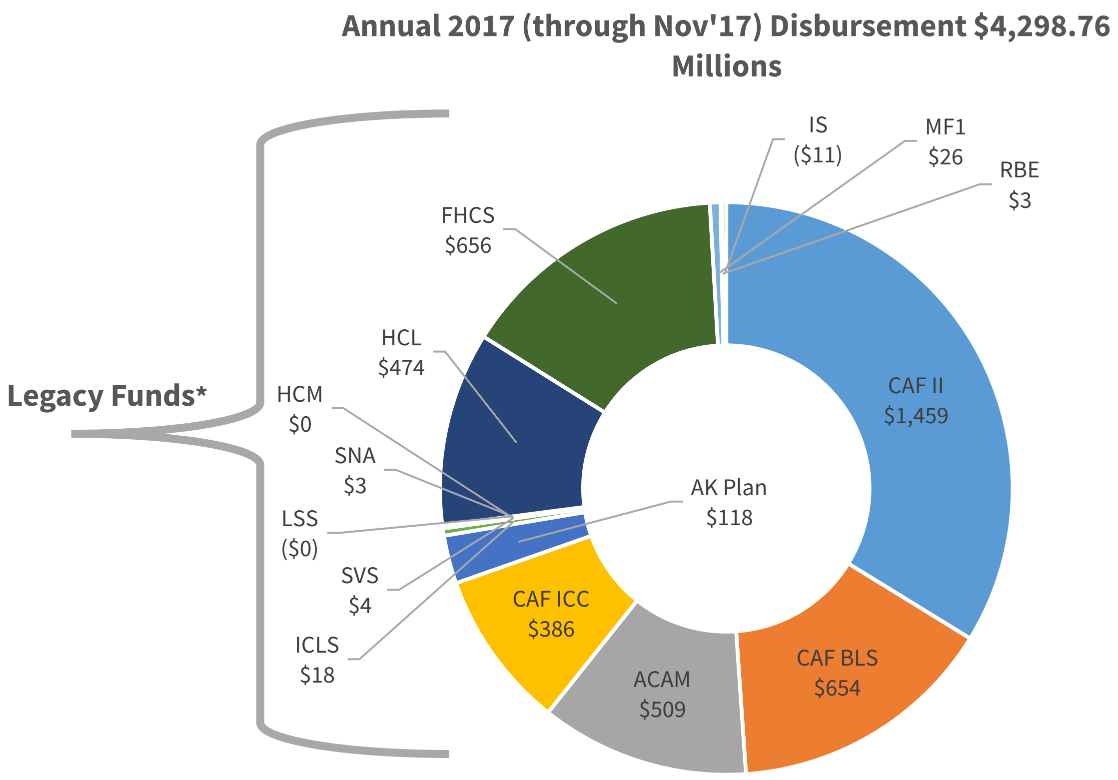
Improve efficiency and improve business process

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

Program Integrity: Disbursements

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



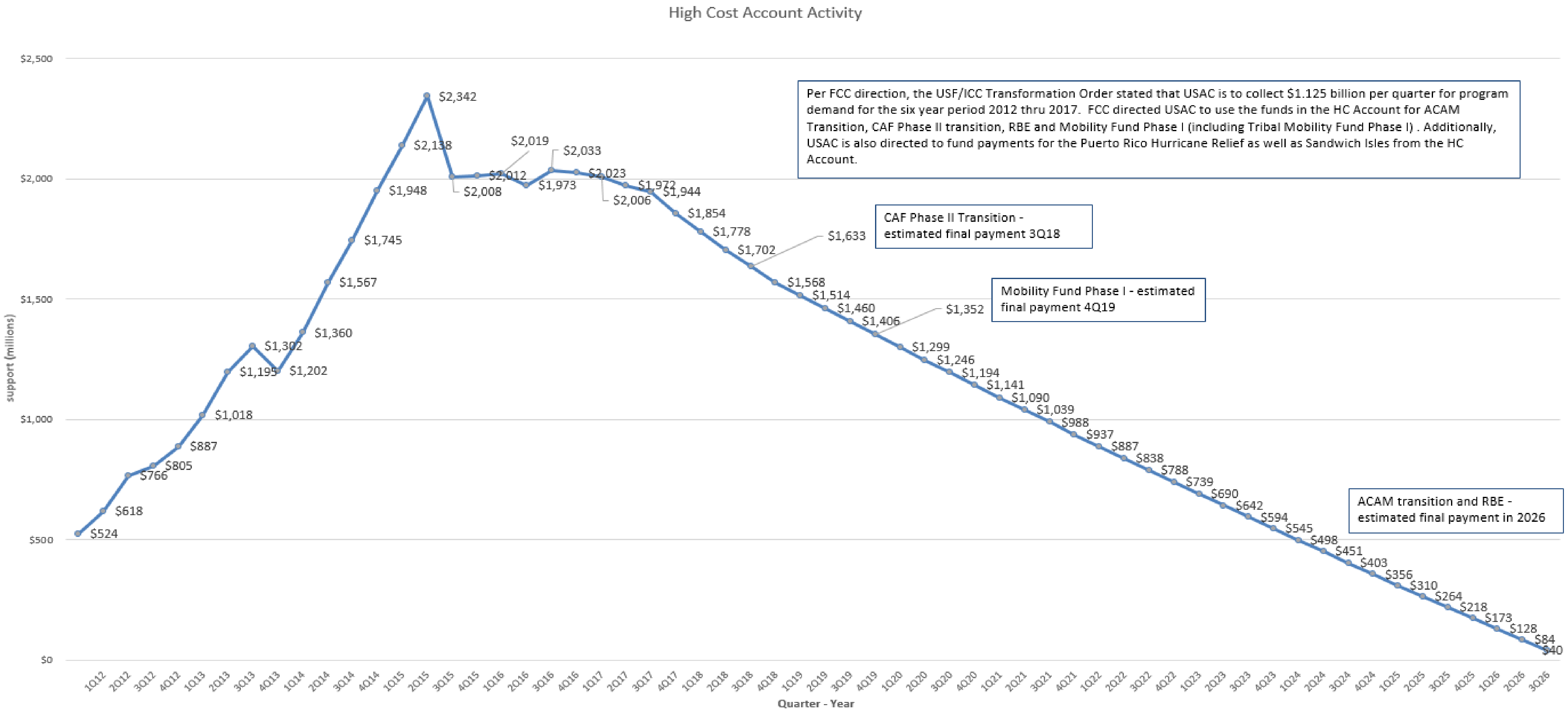


Note:
FHCS: Frozen High Cost Support
HCL: High Cost Loop
HCM: High Cost Model
SNA: Safety Net Additive
SVS: Safety Valve Support
LSS: Local Switching Support
ICLS: Interstate Common Line Support
ACAM: Alternative Connect America Model
CAF BLS: Connect America Fund Broadband Loop Support
RBE: Rural Broadband Experiments
AK Plan: Alaska Plan Support
CAF ICC: Connect America Fund Intercarrier Compensation
MF I: Mobility Fund Phase I
CAF Phase I Incremental Support (IS)
*Legacy Funds includes: FHCS, HCL,HCM,SNA,SVS,LSS,ICLS

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

High Cost Account (projections)

Briefing book excludes all materials discussed in Executive Session



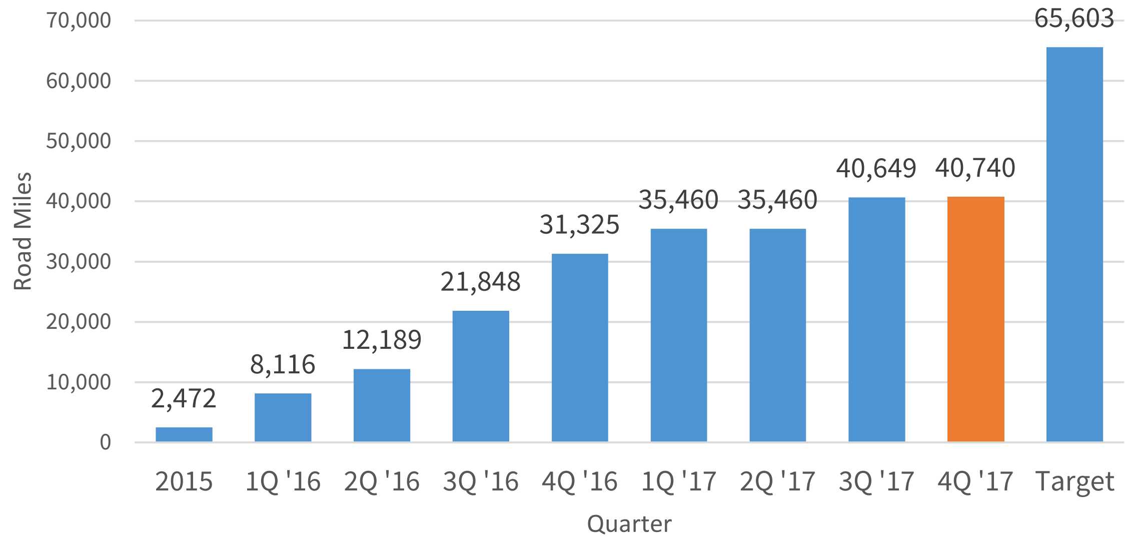
High Cost Program Outcome: Network Build-out/Services Offered – Road Miles (Mobility Fund Phase I)

As of November 2017

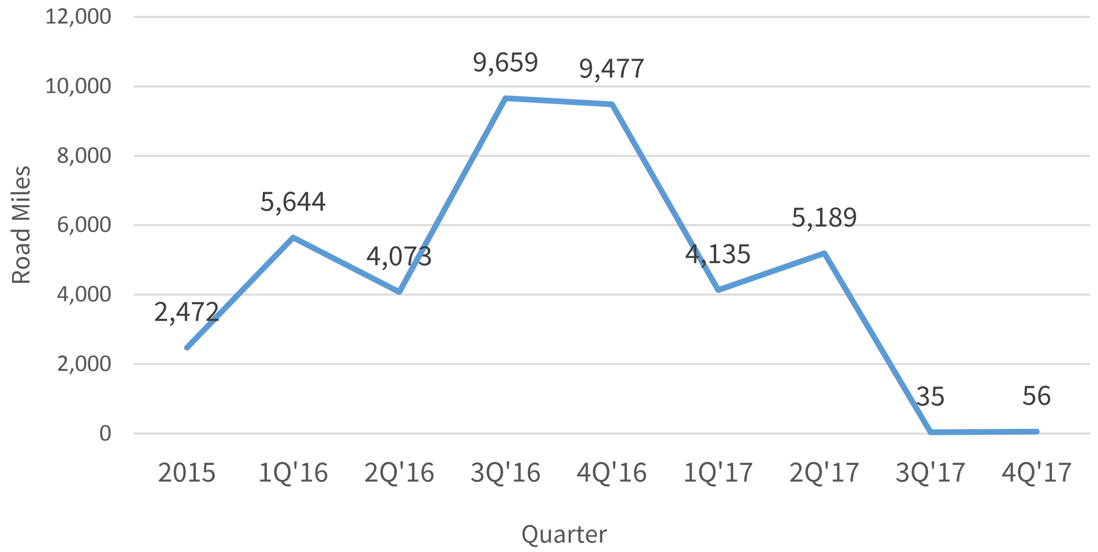
GOAL #1: Expand broadband and maintain voice and broadband coverage by collaborating with stakeholders to achieve a shared goal of ensuring universal availability of voice and broadband, both fixed and mobile, that is reasonably comparable to what is available in urban areas.

Summary & Analysis	Insights & Action Items
Actual Road Miles Verified • No new road miles were verified as of November 2017. • Approximately 62% of total awarded road miles have been verified to date. • High volume of submissions led to an increase in verifications in 3Q 2016 and 4Q 2016.	• Road mile verifications in upcoming quarters will increase in small increments due to completion of network build-outs by carriers. • Estimated completion time for remaining verifications is 4Q 2019.

Cumulative Mobility Fund Road Miles Verified to Date



Actual Mobility Fund Road Miles Verified



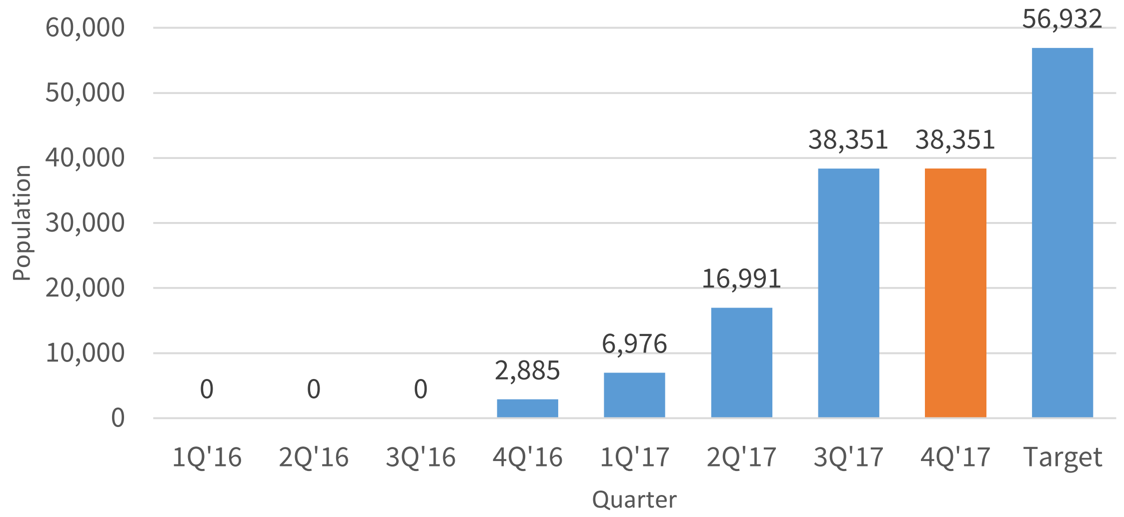
High Cost Program Outcome: Network Build-out/Services Offered – Population (Mobility Fund Phase I)

As of November 2017

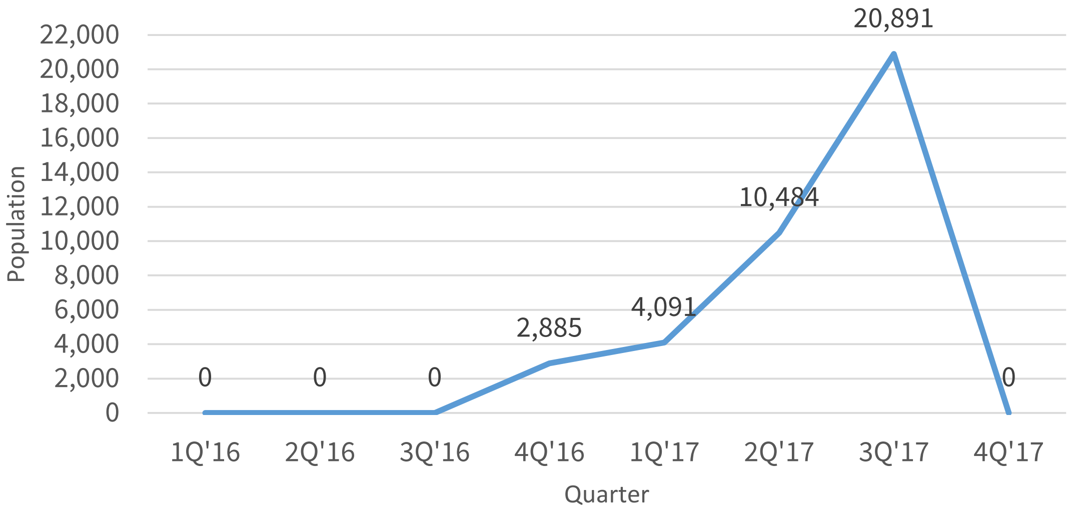
GOAL #1: Expand broadband and maintain voice and broadband coverage by collaborating with stakeholders to achieve a shared goal of ensuring universal availability of voice and broadband, both fixed and mobile, that is reasonably comparable to what is available in urban areas.

Summary & Analysis	Insights & Action Items
Actual Population Verified • No population was verified as of November. • Population verification began in 4Q 2016. • As of November 2017, about 69% of the total population served has been verified.	• Population verification is scheduled for completion by July 2018.

Cumulative Tribal Mobility Fund Population Verified to Date

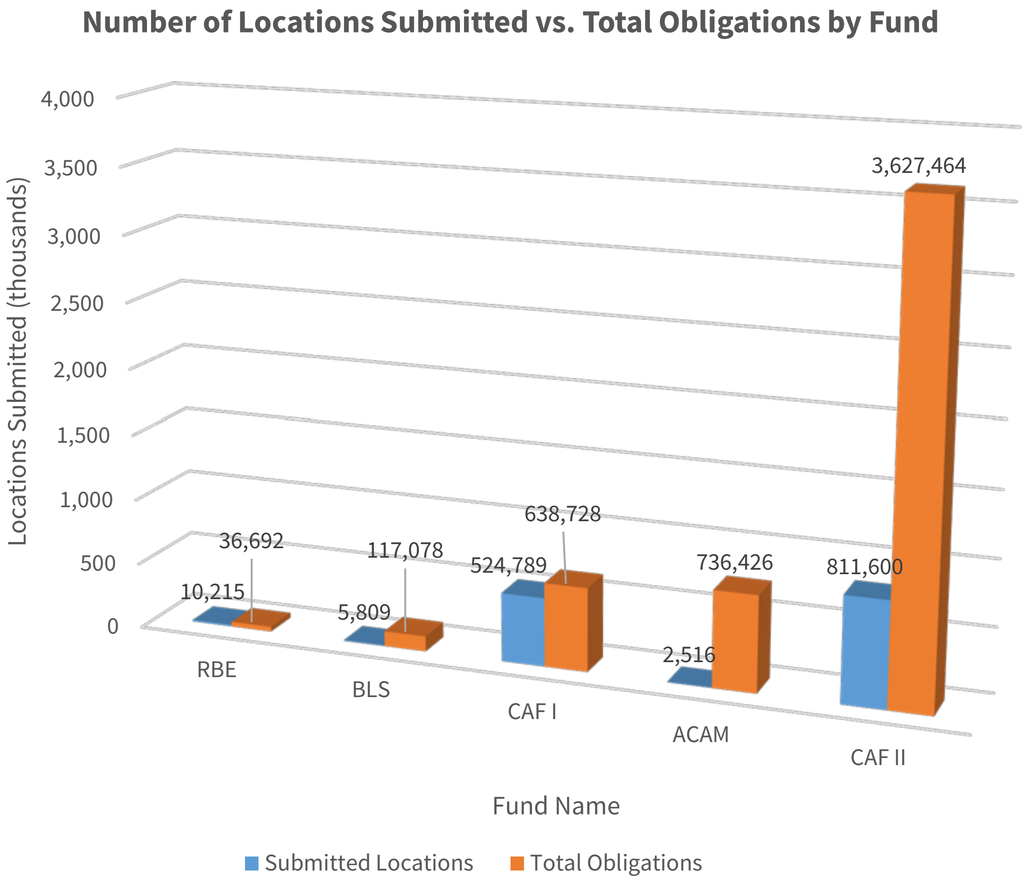


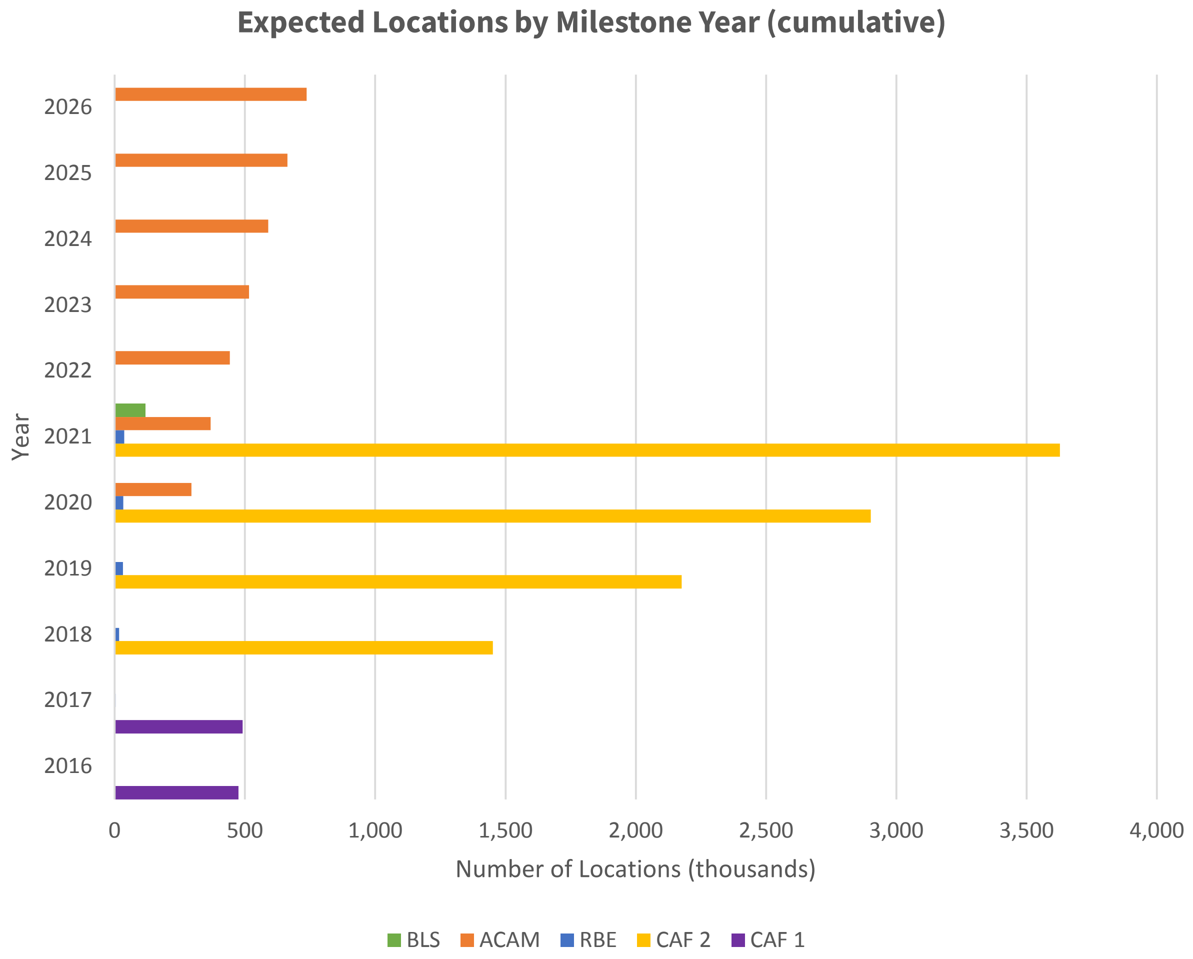
Actual Tribal Mobility Fund Population Verified by Date



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

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





2017 Accomplishments

HUBB Launch

Successful HUBB launch in March with widespread stakeholder buy-in following extensive engagement. Collected over 900k locations by the July 1 filing deadline.

ACAM, AK Plan, BLS

Successful implementation of three new FCC programs that will expand broadband to rural areas.

Mobility Fund Phase I verifications

Successful completion of all 3G network verifications. On track to complete the remaining 4G non-tribal and tribal Mobility Fund verifications in 2018 to 2019.

User Experience

- HUBB design and July 1 filing deadline
- CAF Verification Design, CAF Map, and Open Data Initiative outreach
- Call Center launch

HC Intake Process

The High Cost team developed and implemented a standard process for FCC Order and project intake. This process uses industry standards to ensure timely and accurate delivery of initiatives.

HUBB State Access Tool

In August 2017, we successfully implemented an online tool that provides electronic access to all location based data for State PUC and FCC stakeholders.

Verifications

- Successful completion of FCC Form 481 in-depth validations (IDV)
- Completed manual validations for CAF 1 and RBE
- Completed 3 out of 5 CAF 1 Round 1 verifications
- Developed verification tool kit

1Q2018 to 2Q2018 (look ahead)

PROGRAM INTEGRITY

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

- Finalization of the CAF Phase II verification process and artifacts
- Complete CAF Phase I Round 2 verification
- HUBB Portal Phase 1 enhancements
- Continue Mobility Fund Phase 1 verifications

USER EXPERIENCE

Strengthen and simplify user experience to enable successful participation.

- HUBB Outreach– Engagement with Rate of Return and other carriers facing March 2018 filing deadline, as well as ongoing usability testing
- MF II Outreach – Education and outreach to wireless carriers and state and local government officials to support MF II implementation, including Challenge Process
- High Cost Open Data Outreach – Engagement and communications with broad range of industry and civil society stakeholders about High Cost Open Data initiative and CAF Map
- Compliance Outreach – Outreach to carriers and consultants to educate them about how the CAF verification process will work and what will be expected of them

OPERATIONAL EFFECTIVENESS

Continuously improve the efficiency and effectiveness of business processes.

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

Universal Service
Administrative Co.

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

ACTION ITEM

Approval of Low Income Support Mechanism 2nd Quarter 2018 Programmatic Budget and Demand Projection for the January 31, 2018 FCC Filing

Action Requested

The USAC Board of Directors High Cost & Low Income Committee (Committee) is requested to approve the 2nd Quarter 2018 (2Q2018) programmatic budget and demand projection for the Low Income Support Mechanism for submission to the Federal Communications Commission (FCC) in USAC's January 31, 2018 quarterly filing.

Discussion

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

2Q2018 Operating Budget

Based on current operational responsibilities and requirements, USAC management estimates a direct operating budget of $6.26 million will be required to fund Low Income Support Mechanism programmatic activities in 2Q2018, which includes:

- $1.72 million in compensation and benefits for 45 full time equivalents (FTEs), including dedicated information technology (IT), data, and legal support teams.
- $3.05 million in professional fees, including:
    - $1.67 million for the National Verifier (NV) business process outsource (BPO) vendor.
    - $0.40 million for Third Party Identity Verification (TPIV) associated with National Lifeline Accountability Database (NLAD) activities.
    - $0.34 million for program, IT, and data team contract labor.
    - $0.24 million for the expensed portion of NV software development.
    - $0.14 million for recertification services.
    - $0.10 million for Federal Information Security Management Act (FISMA) testing.
    - $0.09 million for NV operations and maintenance.
    - $0.07 million for user support.
- $0.53 million for Beneficiary and Contributor Audit Program (BCAP) audits.

[1] 47 C.F.R. § 54.705(c).

[2] By-Laws of Universal Service Administrative Company, Article II, § 8.

- $0.12 million for NV licensing and hosting costs.
- $0.84 million for other expenses, including $0.58 million for postage related to the NV BPO vendor.

The details to support the allocation of USAC common operating costs to the Low Income Support Mechanism are included with the Board budget materials under item aBOD05 013018.

2Q2018 Capital Budget

USAC management estimates a direct capital budget of $1.08 million in 2Q2018 for NV software development.

The details to support the allocation of USAC common capital costs to the Low Income Support Mechanism are included with the Board budget materials under item aBOD05 013018.

Budget Attachments

Attachment A provides the details and compares the proposed 2Q2018 operating budget to 2nd Quarter 2017 actual expenditures.

Attachment B provides a comparison of the budget to actual expenditures for the 12 months ending December 31, 2017. Explanations are provided for significant variances.

Collection Requirement

Based on the 2Q2018 operating and capital budgets, USAC management estimates a collection requirement of $7.34 million for Low Income Support Mechanism administrative costs in 2Q2018 as follows:

Collection Requirement	Requirement in Millions
2Q2018 Operating Budget	$6.26
2Q2018 Capital Budget	1.08
Total Collection Requirement	**$7.34**

Funding Requirement

On a quarterly basis, USAC is required to submit to the FCC the projected demand for the upcoming quarter.[3] USAC estimates the 2Q2018 funding requirement for the Low Income Support Mechanism as follows:

[3] 47 C.F.R. § 54.709(a). Sixty days prior to the start of each quarter, USAC provides projected support mechanism demand and administrative expense data to the FCC. Thirty days prior to the start of the quarter, USAC submits projected universal service contributor revenue data to the FCC. The FCC uses these projections to establish the Universal Service Fund (USF) contribution factor for the upcoming

Funding Requirement	Requirement in Millions
Lifeline[4]	$308.23
Link Up[5]	0.03
Total Funding Requirement	**$308.26**

Prior Period Adjustments

Results for 4th Quarter 2017 (4Q2017) contribute to an over-funded condition. The total prior period adjustment to the 2Q2018 funding requirement based on 4Q2017 actual results will decrease the funding requirement by $13.38 million. The explanation for the adjustment is provided below:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2017 Billings were higher than projected	($0.31)
Low Income Support Mechanism distributions were lower than projected for 4Q2017	(10.33)
Bad debt expense was lower than anticipated	(2.65)
Interest income was higher than anticipated	(0.09)
Total Prior Period Adjustment	**($13.38)**

Summary of Demand

The total funding requirement of $308.26 million is adjusted as follows, resulting in a total projected 2Q2018 funding requirement for the Low Income Support Mechanism of $306.78 million:

Low Income Support Mechanism
Fund Size Projections for 2nd Quarter 2018
(in millions)

Low Income Support	$308.26
Prior Period Adjustment	(13.38)
USAC Admin Expenses (including $4.66 million common costs)	12.00
Interest Income	(0.10)
Total 2Q2018 Demand	**$306.78**

quarter, and USAC uses the resulting contribution factor to invoice universal service contributors once the quarter begins.
[4] Lifeline Support is provided pursuant to 47 C.F.R. § 54.407.
[5] Link Up Support is provided pursuant to 47 C.F.R. § 54.414.

Low Income Support Mechanism
Quarter-Over-Quarter Projections
(in millions)

	2Q2018	1Q2018	4Q2017	3Q2017
Low Income Support	$308.26	$313.10	$319.89	$330.35
Prior Period Adjustment	(13.38)	(4.15)	(44.46)	(54.67)
USAC Admin Expenses	12.00	14.92	14.69	8.49
Interest Income	(0.10)	(0.27)	(0.28)	(0.17)
Total Demand	**$306.78**	**$323.60**	**$289.84**	**$284.00**

Management Recommendation

USAC management recommends the Committee approve the budget and collection requirement as proposed.

Recommended USAC High Cost & Low Income Committee Action:

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC High Cost & Low Income Committee approves a 2nd Quarter 2018 Low Income Support Mechanism operating budget of $6.26 million; and

RESOLVED FURTHER, that the USAC High Cost and Low Income Committee approves a 2nd Quarter 2018 Low Income Support Mechanism capital budget of $1.08 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of $7.34 million for Low Income Support Mechanism administrative costs in the required January 31, 2018 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on January 29, 2018, a summary of the 2nd Quarter 2018 Low Income Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required January 31, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the total variance for the Low Income Support Mechanism is equal to or less than $10 million, or may seek approval from the High Cost & Low Income Committee Chair to make adjustments if the total variance is greater than $10 million, but not more than $15 million.

Expense Category	2Q2017 Actual	2Q2018 Budget	Increase/ (Decrease)	Explanations
Compensation & Benefits	$ 1,856.04	$ 1,716.85	$ (139.19)	45 FTEs in 2Q2018 vs an average of 45 in 2Q2017. 2Q2017 actuals include an adjustment to reclass FTEs charged to Common in 1Q2017.
External BCAP Costs	215.70	529.87	314.17	Increase in outsourced audit activity in 2Q2018 under the Beneficiary and Contributor Audit Program
Professional Fees & Contract Labor	3,907.43	3,054.86	(852.57)	Decrease in costs related to National Verifier (NV) strategic consulting; offset by increase related to NV business process outsource (BPO) vendor
Telephone & Computer Support	168.90	118.37	(50.53)	Computer support maintenance agreements and licensing related to NV
Travel, Meetings & Conferences	18.34	54.62	36.28	Lodging, transportation, and meals associated with program and user support travel
Other Expenses	135.63	787.95	652.32	Higher postage costs related to NV BPO
Total Programmatic Operating Costs	**$ 6,302.04**	**$ 6,262.52**	**$ (39.52)**	
Direct Capital Costs	**$ 1,079.42**	**$ 1,076.95**	**$ (2.47)**	NV software development
Total Direct Costs - Low Income Program	**$ 7,381.46**	**$ 7,339.47**	**$ (41.99)**	

Common Operating Costs Assigned to Low Income Program	$ 3,402.27	$ 4,580.38	$ 1,178.11	Allocation of indirect operating costs based on the Cost Allocation Methodology (CAM)
Common Capital Costs Assigned to Low Income Program	60.53	79.31	18.78	Allocation of indirect capital budget based on the CAM
Total Common Costs Assigned to Low Income Program	**$ 3,462.80**	**$ 4,659.69**	**$ 1,196.89**	

Total Low Income Program with Allocations	**$ 10,844.26**	**$ 11,999.16**	**$ 1,154.90**	

Direct Operating Expenses	Actual	Budget	Variance	%	Explanations
Compensation & Benefits	$ 6,202.97	$ 7,061.96	$ 858.99	12%	Lower spending due to vacant positions (45 FTEs vs 54 budgeted)
External BCAP Costs	865.00	728.80	(136.20)	-19%	Higher spending on outsourced audits under the Beneficiary and Contributor Audit Program (BCAP), offset by lower spending on co-sourced audits under BCAP
Professional Fees & Contract Labor	10,540.24	10,549.24	9.00	0%	
Telephone & Computer Support	436.46	332.07	(104.39)	-31%	Higher spending on NV software licensing
Legal Professional Fees	94.67	-	(94.67)	N/A	Unbudgeted spending on outside counsel related to NV BPO
Travel, Meetings & Conferences	44.94	31.60	(13.34)	-42%	Higher spending on program and IT travel
Other Expenses	422.18	642.33	220.15	34%	Lower spending on postage
Total Direct Operating Expenses	**$ 18,606.46**	**$ 19,346.00**	**$ 739.54**	**4%**	
Indirect Expense / Allocations					
USAC Administration	$ 13,589.72	$ 13,228.52	$ (361.20)	-3%	
Total Expense	**$ 32,196.18**	**$ 32,574.52**	**$ 378.34**	**1%**	

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

INFORMATION ITEM – *Executive Session Option*

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

<u>Information Presented</u>

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

<u>Discussion</u>

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

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

Summary of Low Income Support Mechanism Beneficiary Audit Reports

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
Budget PrePay, Inc., Indiana **(Attachment A)**	3	• No Material Findings.	$289,581	$65	$0	Y
Puerto Rico Telephone Company DBA Claro, Puerto Rico	2	• No Material Findings.	$227,966	$971	$0	N
Boomerang Wireless, LLC, California	1	• No Material Findings.	$945,729	$999	$999	N
Global Connection Inc. of America, Louisiana	1	• No Material Findings.	$5,374	$1,073	$1,073	N
Virgin Mobile USA, LP (OR), Oregon	1	• No Material Findings.	$190,615	$0	$0	N
Total	**8**		**$1,659,265**	**$3,108**	**$2,072**	

Attachment A

LI2016BE017

Budget PrePay, Inc.

Limited Scope Audit on Compliance with the Federal Universal Service Fund
Lifeline Support Mechanism Rules
USAC Audit No. LI2016BE017

TABLE OF CONTENTS

EXECUTIVE SUMMARY

November 16, 2017

Ms. Lakisha Taylor
Budget PrePay, Inc.
1325 Barksdale Boulevard
Bossier City, LA 71111

Dear Ms. Taylor,

DP George & Company, LLC (DPG) audited the compliance of Budget PrePay, Inc. (Beneficiary), study area code 329016, 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 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,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: De-enrollment Deadline. The Beneficiary did not de-enroll all subscribers by the de-enrollment deadline.	$65	$0
Finding #2: 47 C.F.R. § 54.404(b) – NLAD and Form 497 Variance. The Beneficiary failed to remove subscribers from NLAD within the required time frame.	$0	$0
Finding #3: 47 C.F.R. § 54.416(b) – Inaccurate Form 555 Reporting. The results reported on the Form 555 were not supported by the Beneficiary's detailed recertification results.	$0	$0
Total Net Monetary Effect	**$65**	**$0**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results. USAC management notes that there is no recovery associated with the audit results. Thus, USAC management will not seek recovery at this time. USAC management will issue a separate memorandum to the Beneficiary to address the audit results.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

Support Type	Number of Subscribers	Amount of Support
Lifeline	31,306	$289,581

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 Indiana.

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) or comparable state database and the Beneficiary's data files.

B. Certification and Recertification Process

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

C. Subscriber Listing

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

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

D. Lifeline Subscriber Discounts

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

E. Form 555

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

F. Non-Usage Process

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

DETAILED AUDIT FINDINGS

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

CONDITION

DPG noted 4,249 subscribers on the February 2015 subscriber listing who were identified in the 2014 detailed recertification results as de-enrolled, or scheduled for de-enrollment. DPG selected a sample of 10 subscribers from this group and requested support showing their de-enrollment date and a copy of the new certification form establishing their eligibility for inclusion on the February 2015 Form 497. DPG also noted 494 subscribers on the February 2015 subscriber listing who were previously listed as de-enrolled for non-usage. DPG selected a sample of 5 subscribers from this group and requested the same support. For all 15 samples, the Beneficiary provided an explanation and support indicating that the subscriber should not have been reported in the detailed recertification results file as de-enrolled as a result of recertification or non-usage. However, for seven of the explanations provided, the Beneficiary was not able to provide the IVR recertification file evidencing that recertification took place.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the recertification process and did not have adequate procedures in place to accurately capture de-enrollment information. The Beneficiary indicated that in some instances the query used to prepare the Form 555 information did not pull in the recertification date. The Beneficiary also indicated that non-usage information reported on the Form 555 included records for accounts with 60-89 days of non-usage for subscribers who were not actually de-enrolled but had been notified that their Lifeline credit would be removed if they did not make an outgoing call in 30 days.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	$65	$0

DPG calculated the monetary effect by multiplying the number of subscribers where adequate support was not provided (7) by the support amount requested on the Form 497 ($9.25) and rounded to the nearest whole dollar. DPG notes that the monetary effect is de minimis and therefore does not recommend recovery.

RECOMMENDATION

The Beneficiary has relinquished its ETC status in the state of Indiana. Therefore, we make no recommendation on establishing compliance going forward.

BENEFICIARY RESPONSE

> The Budget subscribers' accounts at issue all include notations confirming that re-certifications of Lifeline eligibility occurred, as required by FCC rules.

DPG RESPONSE

The rules at 47 C.F.R. § 54.417(a) specify that eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline program for the three full preceding calendar years and provide that documentation to the Commission or the Administrator upon request. Certification and recertification documentation required in § 54.410(d) and (f) must be maintained for as long as the subscriber receives Lifeline service. DPG requested copies of the recertification documentation for the seven subscribers identified above and the Beneficiary was not able to provide the copies of the IVR recertification file. For these reasons, DPG's position on this finding remains unchanged.

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

CONDITION

DPG compared the Beneficiary's subscriber data in the National Lifeline Accountability Database (NLAD) to the audit period subscriber listing to identify subscribers reflected in NLAD and not claimed on the February 2015 Form 497. DPG identified 14,535 subscribers in NLAD not claimed on the February 2015 Form 497. From these subscribers, DPG identified 7,031 customers who were previously scheduled for de-enrollment by the Beneficiary but were listed in NLAD as of the audit period. DPG also identified 4,434 subscribers who were previously listed as de-enrolled for non-usage. DPG selected a sample of 15 subscribers from these populations and requested an explanation and related support clarifying why the subscribers had not been removed from NLAD. The Beneficiary was not able to provide support indicating the subscribers were re-enrolled or an explanation for why the subscribers remained in the NLAD database. Based on the continued inclusion of the subscribers in NLAD, DPG determined that the subscribers were not de-enrolled properly in NLAD. 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

The Beneficiary has relinquished its ETC status in the state of Indiana. Therefore, we make no recommendation on establishing compliance going forward.

BENEFICIARY RESPONSE

> Budget notes that it properly de-enrolled the subscribers and sent de-enrollment requests through the Budget and NLAD API nightly batch upload process. However, Budget is unable to access the history of the subscribers in NLAD to see when the subscribers de-enrollments were received and processed by the NLAD administrator. It

is possible that the requested de-enrollment from NLAD by the NLAD administrator may have occurred on a date different than the date requested by Budget.

DPG RESPONSE

DPG did not receive an explanation or support from the Beneficiary to determine the date the subscriber should have been de-enrolled and did not receive certification or recertification file supporting the date that the subscriber re-established eligibility in NLAD. Without this information, DPG is not able to determine if the subscribers were de-enrolled properly or not. For this reason, DPG's position on this finding remains unchanged.

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

CONDITION

DPG examined the Beneficiary's detail recertification results and detailed non-usage results to determine whether the Beneficiary could substantiate the number of subscribers reported on the January 2015 Form 555. The detailed recertification results agreed to the form 555. However, as noted in Finding #1 above, the Beneficiary indicated that there were instances where the recertification information pulled to support the 555 reporting was incorrect.

DPG also noted that the non-usage detail provided by the beneficiary did not agree to the Form 555. The Beneficiary indicated that the numbers reported for March and April should have been lower by 168 and 169 subscribers respectively. When reviewing the detailed non-usage results further, DPG noted 7,084 instances where subscribers were listed as de-enrolled more than once in a 3 month (90-day) period. In 7,045 of these instances, the subscribers were listed as de-enrolled two or more times in consecutive months. The Beneficiary indicated that these were the result of erroneously including records for accounts with 60-89 days of non-usage. These subscribers were not actually de-enrolled but had been notified that their Lifeline credit would be removed if they did not make an outgoing call in 30 days. The Form 555 should only report non-usage for subscribers who have been de-enrolled.

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

The Beneficiary has relinquished its ETC status in the state of Indiana. Therefore, we make no recommendation on establishing compliance going forward.

BENEFICIARY RESPONSE

> Budget does not agree that there was a lack of an adequate system for collecting, monitoring and reporting data that could result in Budget (a) failing to de-enroll a customer beyond the data required by the recetification or non-usage rules, or (b) improperly seeking reimbursement for customers beyond the required de-enrollment date. As noted in the draft finding, there was no monetary impact because the company did not improperly report any of the subject customers for reimbursement for time periods beyond the required de-enrollment date. Nor did the auditors find that Budget failed to timely de-enroll these customers in accordance with applicable rules.
>
> The alleged data flaws and transcription errors do not signify a lack of adequate data collection, monitoring or reporting that in any way affects Form 497 reimbursement reporting or the timing of a customer's de-enrollment. Accordingly, Budget disagrees with the conclusion that there is a risk that a customer would not be timely de-enrolled or that Budget would improperly seek reimbursment for time periods beyond a customer's required de-enrollment date.

DPG RESPONSE

As identified in Finding #1, the Beneficiary indicated that none of the 15 subscribers selected by DPG to confirm Form 555 reporting were reported correctly by its system. The system also incorrectly identified over 7,000 subscribers as de-enrolled for non-usage. The inability of the system to categorize subscribers accurately for the purposes of Form 555 reporting in these areas raises a general concern that the system may not have categorized subscribers accurately for other aspects of the recertification and reporting process, including the identification of all subscribers who were required to be de-enrolled. For this reason, DPG's position on this finding remains unchanged.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.405(e)(4) (2014)	"*De-enrollment for failure to re-certify.* Notwithstanding paragraph (e)(1) of this section, an eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier's attempts to obtain re-certification of the subscriber's continued eligibility as required by [47 C.F.R.] § 54.410(f)."
#1,3	47 C.F.R. § 54.405(e)(3) (2014)	"*De-enrollment for non-usage.* Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as 'usage' is defined in [47 C.F.R.] § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess or collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service within 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service."
#1	47 C.F.R. § 54.407(e) (2014)	"In order to receive universal support reimbursement, an eligible telecommunications carrier must keep accurate records of the revenues it forgoes in providing Lifeline services. Such records shall be kept in the form directed by the Administrator and provided to the Administrator at intervals as directed by the Administrator or as provided in this subpart."
#1,3	47 C.F.R. § 54.416(b) (2014)	"All eligible telecommunications carriers must annually provide the results of their re-certification efforts, performed pursuant to § 54.410(f), to the Commission and the Administrator. Eligible telecommunications carriers designated as such by one or more states pursuant to § 54.201 must also provide, on an annual basis, the results of their re-certification efforts to state commissions for subscribers residing in those states where the state designated the eligible telecommunications carrier. Eligible telecommunications carriers must also provide their annual re-certification results for subscribers residing on Tribal lands to the relevant Tribal governments."
#1	*Wireline Competition Bureau Reminds Carriers That They Must Re-Certify Eligibility of All Lifeline Subscribers by December 31, 2012*, Public Notice, WC Docket Nos. 03-109, *et al.*, 27 FCC Rcd 12327, 12327, 1-2 (Oct. 2012) (*October 2012 Public Notice*) (internal footnotes omitted).	"ETCs and state agencies must re-certify their base of subscribers as of June 1, 2012 and must complete the re-certification process by December 31.... The re-certification process is not considered 'complete' until the ETC has de-enrolled all subscribers that failed to respond to a re-certification request or are no longer eligible, or where a database query by the ETC or state agency indicates the subscriber is no longer eligible and the subscriber has not provided a valid re-certification pursuant to [47 C.F.R.] § 54.410(d)."
#2	47 C.F.R. § 54.404(b)(6), (8), (10) (2014)	"(b) The National Lifeline Accountability Database. In order to receive Lifeline support, eligible telecommunications carriers operating in

Finding	Criteria	Description
		states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: … (6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline…. (8) All eligible telecommunications carriers must update an existing Lifeline subscriber's information in the Database within ten business days of receiving any change to that information, except as described in paragraph (b)(10) of this section…. (10) When an eligible telecommunications carrier de-enrolls a subscriber, it must transmit to the Database the date of Lifeline service de-enrollment within one business day of de-enrollment."

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

INFORMATION ITEM

Low Income Support Mechanism Business Update

<u>Information Presented</u>:

This information item provides the High Cost & Low Income (HCLI) Committee (Committee) with a quarterly status report on the operation of the Low Income (LI) Support Mechanism for 4th Quarter 2017 (4Q2017). The update includes information on ongoing Lifeline operations, as well as the National Verifier implementation.

<u>Discussion</u>:

<u>Program Highlights – 4Q2017</u>

- 75 percent of the 8.4 million Lifeline subscribers in the National Lifeline Accountability Database (NLAD) are reported by service providers as having a service that meets the broadband minimum service standards. Minimum service standards were modified December 1, 2017 to mobile broadband using 3G technology and including at least 1 GB (versus 500 MB) of data, fixed broadband using 15/2 speeds with 250 GB of data (versus 10/1 with 150 GB of data).

- In 4Q2017, there were 1.1 million new enrollments and 1.3 million de-enrollments in NLAD, for a net decrease in subscribership of 200,000.[1]

- USAC conducted rolling recertification for November, December, and January anniversary dates, resulting in successful recertification rates of 68 percent, 68 percent, and 67 percent%, respectively.

- USAC's Lifeline Safeguards Plan remains on track.

- USAC and the Federal Communications Commission (FCC or Commission) communicated the delay of the National Verifier launch to early 2018.

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

- See **Attachment B** for additional program updates.

[1] These figures do not include subscribers in opt-out states of CA, TX, and OR and does not include full quarter for VT, which opted into NLAD in November 2017.

Low Income Support Mechanism Operational Update

November 2017- January 2018 USAC Conducted Rolling Recertification

Subject to the *2016 Lifeline Modernization Order* (Order),[2] and based on service provider elections, USAC conducted recertifications for consumers with enrollment anniversary dates in November 2017 through January 2018. Results are depicted in the table below.

Month	Study Area Codes	Subscribers	% Successfully Recertified	% Non-Responsive
November	525	31,260	68%	24%
December	539	38,755	68%	23%
January	556	40,618	67%	24%

A higher percent of subscribers were successfully recertified than the prior three months, which were 56 percent, 57 percent, and 60 percent successful, respectively. However, the recertification rates listed in the table above do not include any subscribers that were subject to the temporary recertification waivers granted by the FCC in Affected Disaster Areas within Florida, Georgia, Puerto Rico, and the Virgin Islands affected by recent hurricanes. In our experience, Puerto Rico subscribers have a higher rate of unsuccessful recertification due to non-responsiveness. Their exclusion may make rates appear more favorable than they will be once hurricane-affected subscribers are included.

For the subscribers not in hurricane-affected areas, we have seen improvements over past months in the responsiveness of subscribers to our recertification outreach. In October, USAC reported the below two changes implemented to address higher rates of non-responsiveness experienced since the implementation of rolling recertification. Since the implementation of the later robo-reminders, there has been an increase in the volume of successful recertifications that occur in the second half of the 60-day recertification window. Because the January batch is the only completed batch so far that included the new 30-day non-response update report, there is insufficient data to measure the impact of this report on non-responsiveness at this time. Anecdotally, the inclusion of this additional report has been well-received by the service providers that have elected USAC for recertification.

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

[2] *Lifeline and Link Up Reform and Modernization Order et al.*, Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962 (2016).

Program Integrity Improvements

During 4Q2017, Lifeline, working in coordination with USAC's Office of General Counsel (OGC) and the Internal Audit Division (IAD), continued to track on schedule against its Lifeline Safeguards Plan. In addition, the Government Accountability Office (GAO) provided certain detailed data sets associated with its findings for USAC's review and analysis. Finally, Lifeline conducted other program integrity reviews to monitor compliance within the program.

- Lifeline Safeguards Plan
    - Deceased Subscribers – Ahead of its year-end goal, Lifeline implemented the LexisNexis LexID Death Match into NLAD on November 1st, which uses the Social Security Administration's Death Master File (DMF), as well as other proprietary data sources to determine if a person may be deceased. This is used proactively to prevent an enrollment and to sample existing subscribers. From November 1st to December 31st, the check prevented 726 enrollments. The first sampling results will be reported at the April 2018 HCLI Committee meeting.
    - Phantom Subscribers – Lifeline continues to reject any FCC Form 497 claims in excess of NLAD subscribership. Beginning with the January 2018 data month, used for claims paid in February, the FCC Form 497 will be retired, and payments will be calculated based on NLAD. The IT efforts associated with this change are on track for deployment by the end of January for carrier use beginning February 1st.
    - Oversubscribed Addresses – Lifeline performed a review of all subscribers at addresses shared by 500 or more subscribers, asking carriers to confirm the subscribers' addresses and ensure an Independent Economic Household worksheet was collected. Of the approximately 7,000 subscribers at issue, 4,770 were de-enrolled by the carriers at the conclusion of this review. In follow up, Lifeline is requesting supporting documentation for a sample of subscribers who were confirmed, as well as de-enrolled. USAC has also begun quarterly sampling of subscribers at addresses shared by 25 or more addresses and will report the results of these reviews in future meetings.
    - Exact Duplicate Subscribers – USAC has determined there are no exact duplicates in the NLAD at this time. USAC analyzed the subscribers identified by the GAO, explained in the following section of this update.
    - Potentially ineligible subscribers – As USAC's planned actions are predicated upon receipt of GAO data that has not yet been made available, these activities have not yet begun.
    - Sales Agent Accountability – USAC is in the process of designing the Sales Agent Registry as directed by Chairman Pai. A full implementation plan will be created in mid to late Q1.

- Analysis of GAO Data
    - Oversubscribed Addresses - The GAO provided USAC with a list of 48 addresses that, at one time, were associated with 500 or more subscribers.[3] As of the November 2017 NLAD snapshot, one of the addresses, which is a homeless shelter, had over 500 subscribers associated with it. This address is part of USAC's review described above. Of the remaining addresses, 18 had between 101 and 500 subscribers associated with it, and 29 had fewer than 100 subscribers associated with it. These addresses are subject to the sampling of addresses with 25 or more subscribers described above.
    - Exact Duplicates - The GAO provided USAC with a list of 5,509 subscribers who, at one time, had one or more exact duplicate records in the NLAD. Duplicate subscriber records existed in the NLAD after the initial migration of subscribers into the database while USAC conducted scrubbing and resolution activities. The majority were removed in late 2014 to mid-2015. USAC found that 98 percent of the subscribers identified had been de-enrolled from the NLAD by May 2015, and the remaining two percent were de-enrolled by early 2017. Currently, there are no exact duplicates in the NLAD.

- Other Program Integrity Efforts
    - Sampling of Third Party Identify Verification Disputes – Lifeline has completed its first sampling of these disputes to ensure that the documentation relied upon by carriers was sufficient to support enrollment where the LexisNexis check could not validate an individual's identity automatically. Of 90 sampled subscribers, all were found to have been appropriately enrolled. In ten instances, data entry errors were identified in NLAD as compared to the documentation, which carriers were asked to update. USAC will continue this sampling effort on a quarterly basis.

2017 Lifeline Order

On December 1, 2017, the FCC released a Fourth Report and Order, Order on Reconsideration, and Memorandum Opinion and Order on Lifeline.[4] The item is also a Notice of Proposed Rulemaking (NPRM) and Notice of Inquiry (NOI). USAC is actively working with the FCC to confirm the specific implementation actions for the item.

The Order portion of the item makes the following changes:

- Limits the enhanced Tribal Lifeline support (additional $25 above the standard $9.25) to facilities-based providers;
- Limits the enhanced Tribal Lifeline support to subscribers living on tribal lands that are rural;

[3] The GAO's report noted 59 addresses with over 500 subscribers, but only 48 addresses were provided to USAC.
[4] *Bridging the Digital Divide for Low-Income Consumers, et al.*, Fourth Report and Order, Order on Reconsideration, Memorandum Opinion and Order, Notice of Proposed Rulemaking, and Notice of Inquiry, WC Docket Nos. 17-287, 11-42 and 09-197, 83 Fed. Reg. 2075 (Dec. 1, 2017).

- Eliminates the benefit port freezes of 60 days for voice service and 12 months for broadband service that were implemented in December 2016; and
- Clarifies that Lifeline support is not available for "premium wi-fi" services that require a wi-fi hotspot.

The Tribal-related changes have an implementation deadline of 90 days after the Wireline Competition Bureau (WCB) announces that the FCC has received approval from the Office of Management and Budget (OMB) for the new information collection requirements, subject to the Paperwork Reduction Act (PRA), but no earlier than August 1, 2018. The port freeze change is effective 60 days after publication of the Order in the Federal Register. The Order was published in the Federal Register on January 16, 2018.

The NPRM portion of the item seeks comment on the following:

- Limiting Lifeline support to facilities-based providers;
- Modifying or eliminating the Lifeline Broadband Provider designation process created in December 2016;
- Setting a self-enforcing budget cap on the program; and
- Establishing a maximum discount level for Lifeline-supported services.

The NOI portion of the item seeks comment on how to efficiently target more funds to areas and households most in need of help in obtaining digital opportunity. These areas would include rural and Tribal areas, as well as low-income areas that are likely to be underserved by providers.

Program Outreach and Customer Service

In 4Q2017, the Lifeline team provided support to the upcoming roll-out of the new Lifeline Claims System, whereby monthly reimbursements to carriers are calculated based on data within the NLAD. Service providers were given previews of the system's look and feel and offered opportunities to provide feedback. Components of the system features were rolled out in the pre-production environment as they were completed by IT, so that users could interact with them, ask questions, and provide additional feedback before the system goes live on January 31st.

The Lifeline team also began outreach efforts associated with the 2017 Lifeline Order, creating an update to the website with links to the Order. In 1Q2018, we are updating our informational materials, such as the service provider-facing website and newsletters, so that carriers are aware of the changes in the Order and whether their subscribers are impacted. In addition, Lifeline is building out more detailed information on the consumer-facing website and preparing for informational webinars.

Consumer calls (which continue to come in at approximately 20,000 calls per month) and NLAD support calls (which come in at approximately 200 calls per month) are undergoing a vendor transition in January 2018. Our National Verifier Business Process Outsource (BPO) vendor assumed responsibility for these calls after a thorough training effort with USAC staff. We are closely monitoring the performance of the new call center to ensure the transition is as seamless as possible for consumers, including having USAC staff visit the new call center to provide on-site support and continuous training.

Appeals

At the start of 4Q2017, Lifeline had seven workable appeals averaging approximately 230 days in age. In 4Q2017, USAC resolved one of these appeals and received 14 new appeals, leaving the quarter-end with 20 appeals averaging approximately 104 days in age. The 20 appeals can be categorized as follows:

- Three appeals dispute administrative actions taken by USAC associated with program integrity reviews.
- 16 appeals dispute the merits of Payment Quality Assurance (PQA) reviews, Beneficiary and Contributor Audit Program, or Office of Inspector General audit findings associated with required Lifeline documentation.
- One appeal disputes USAC's rejection of an untimely downward revision to the FCC Form 497.

Appeals can be labor intensive to evaluate, which has led USAC to examine ways to streamline the review process. In addition to training additional staff to perform the review of appeals, Lifeline is considering other ways to improve the efficiency of the process.

<u>National Verifier (NV) Project Update</u>

On December 1, 2017, the FCC announced that the National Verifier soft launch intended for December 5, 2017 would be delayed to early 2018. Despite the fact that USAC had completed work to launch in six states and with the Department of Housing and Urban Development, USAC was unable to complete the necessary FISMA accreditation steps in time for the launch. USAC and the FCC have been closely collaborating to identify the remaining steps, ensure they are conducted with a high level of confidence, and identify new dates for the initial launch. USAC and the FCC anticipate announcing the new soft launch date, as well as any downstream impact to the hard launch date, very soon. In the event this information is available at the time of the meeting, we will discuss it as additional information to this update.

Although we did not go live with the system as scheduled, USAC completed the activities associated with executing state and federal Computer Matching Agreements (CMAs), finalizing functional development of the system and processes, and conducting training for users in the initial six states. As such, the teams are not delayed in moving forward with the requirements for the hard launch or with the additional 19 states required by the end of 2018 (a total of 25 states implemented).

Program Outreach

In 4Q2017, USAC invited points of contact within state agencies that are experienced in eligibility verification to assist with User Acceptance Testing of the National Verifier system. These contacts were not part of the initial states, which gave them a real "fresh eyes" perspective having been a bit more removed from the process and information updates. The testers indicated that the system was user friendly and easy to navigate, and they had no issues with uploading required documents. No defects were reported, and feedback received will be considered as future enhancements to the system.

Also in 4Q2017, Lifeline ramped up training opportunities for service providers in National Verifier-initial launch states. In addition to providing seven formal training sessions, USAC also held five, one-hour long "office hours" sessions to allow service providers additional time for open Q&A, and published five how-to guides about the National Verifier system. For service providers in initial launch states that had not attended available trainings, Lifeline conducted individual outreach to ensure they are aware of the requirements and processes for the National Verifier.

In 1Q2018, Lifeline will begin to engage with the consumer community in the initial launch states, who will begin using the National Verifier upon hard launch. Lifeline will engage with community advocates by presenting a live training webinar and publishing two consumer-facing videos that explain both the Lifeline Program and the National Verifier. USAC plans to open registration for the webinar earlier than usual and reach out to national associations[5] to encourage them to promote the session through their own member channels. Our target audiences include social service agencies, low-income assistance centers, senior centers, and consumer advocates from state government agencies. Lifeline is working closely with USAC's experience designers to research and test the consumer portal interaction experience to ensure it is intuitive for users and the advocates who are assisting them.

State & Federal Engagement

Efforts are well underway towards bringing the additional 19 states or territories into the National Verifier by the end of 2018. For agencies with whom we seek an automated interface, we must execute a CMA. For those with whom we will not pursue an interface because it is not technically feasible or cost effective, no CMA is required to implement a manual review solution. This does not necessarily mean we will launch them in three waves, as the precise timing of launching in additional states is dependent upon finalization of the revised initial soft and hard launch dates.

[5] Associations include the Digital Inclusion Alliance, American Library Association, National Hispanic Media Coalition, NASUCA, and state/tribal SNAP/HHS/PHA offices.

The key milestones associated with the work groups are shown below.

<table>
<tr><th>Group</th><th>USAC & Agency Agreement to CMA</th><th>FCC Privacy Officer Agreement to CMA</th><th>FCC Data Integrity Board Approval</th><th>Congress & OMB Approval</th><th>Conclusion of Federal Register Period (CMA is effective)</th></tr>
<tr><td>1</td><td>January 2018</td><td>February 2018</td><td>March 2018</td><td colspan="2" rowspan="3">States will be grouped by launch date for each of these 60 day periods.</td></tr>
<tr><td>2</td><td>March 2018</td><td>April 2018</td><td>May 2018</td></tr>
<tr><td>3</td><td>June 2018</td><td>July 2018</td><td>August 2018</td></tr>
</table>

In three states, CMAs are nearing final agreement between USAC and the agency. Several additional states are reviewing the draft CMA and providing feedback, although they are a bit earlier in the negotiation process. In addition, USAC has identified approximately 10 states or territories that are candidates for manual implementation of the National Verifier. In these cases, no automated interface would be built to the state because it is more cost effective to leverage federal sources and process the remaining applications through the BPO document review processes.

In addition to the work described above, USAC and the FCC are actively engaged with federal agencies who may offer additional data sharing opportunities.

In December 2017, members of the Lifeline team traveled to Navajo Nation in Window Rock, AZ to learn more about opportunities to improve upon Tribal enrollment processes. The hosts convened a meeting with approximately 20 leaders of the Navajo Nation who focus on social service programs or their related IT systems. Navajo President Begaye joined the group to extend his appreciation for our visit and desire to collaborate. In addition, Lifeline received an in-depth demonstration of work by the Navajo Nation Addressing Authority to learn how they are using GIS technology to document and track residences that do not have standard deliverable addresses, which is a challenge in the Lifeline program to ensure reliable prevention of duplicate household benefits. This was just the beginning of an important series of conversations, and follow up is underway to pursue additional information about potential data connections.

Technical Build

Despite the delayed soft launch, USAC and Accenture continue to work on the existing contractual deadlines for the National Verifier hard launch. Accenture delivered the soft launch functionality as required on December 5, 2017, and has begun working towards the hard launch requirements that are due by March 13, 2018. Accenture has also begun engaging with the additional state and federal agencies with whom we may build additional interfaces.

The hard launch milestone will include the final, fully tested consumer portal functionality, including that which is used to support annual recertification. It also includes some additional development to fully support the back end BPO processes. These features are on track to be built and tested by March 13th.

Operations

Conduent has not begun processing National Verifier transactions as expected due to the delayed launch. However, because of expiring agreements with other call center vendors, Conduent assumed responsibility for the consumer call center and NLAD support call center in January 2018. Conduent will continue to provide this support until the initial launch, at which point it will begin processing new applications and conducting the reverification activities.

In the October 2017 meeting, Lifeline provided additional information on anticipated volumes of National Verifier transactions and the impacts of fluctuations in price as a result of ranges of potential volumes. At that time, we committed to begin providing quarterly reports of forecast versus actuals in January 2018. Given the delayed launch, we will begin providing this information at the first meeting that follows the commencement of National Verifier operations.

<u>2017 Accomplishments and 2018 Q1 – Q2 Look Ahead</u>

As reported throughout the year, the Lifeline team had the following successes in 2017:

- Lifeline Safeguards Plan – Developed the plan in response to Chairman Pai's July 11, 2017 letter and implemented timely to date.
- Disbursement Integrity – Implemented a process to prevent reimbursement claims in excess of subscribers validated through NLAD.
- Companies Near Me Tool – Implemented a zip code based search tool for consumers to find available Lifeline providers.
- Deceased subscriber check – Integrated the SSA Death Master File into NLAD's validations.
- All Online FCC Form 555 – Transitioned the FCC Form 555 to an all online process.
- Computer Matching Agreements – Executed agreements with five agencies to leverage state or federal data for automated eligibility validations.
- National Verifier Soft Launch Development – Developed the system and processes for the initial soft launch of the National Verifier, including the collection of feedback from and the training of future users.

In the first half of 2018, the Lifeline team will focus on the following:

- <u>Program Integrity</u>
    - Launch the National Verifier in the first six states, and negotiate additional CMAs for future waves.

- Continue implementation of the Lifeline Safeguards Plan, including:
  - Implement payments based on NLAD, retiring the FCC Form 497 self-claim process.
  - Complete analysis of GAO identified ineligible and deceased subscribers.
  - Implement quarterly eligibility sampling where the National Verifier is not operational.
  - Continue other existing ongoing sampling.
- Procure a vendor to begin a Lifeline Risk Assessment.

- User Experience
  - Seek input during the National Verifier soft launch to inform hard launch enhancements.
  - Transition the various existing customer service functions to the new BPO without impact to service levels or customer experience.
  - Provide timely and helpful information to program participants related to the 2017 Lifeline Order.

- Operational Effectiveness
  - Implement metric targets and trending associated with the new National Verifier operations to identify continuous remediation/improvement.
  - Effective and efficient FCC Modernization Order implementation.
  - Continued National Verifier roll out.
  - 2017 Lifeline Order.
  - Refine Program Integrity approaches based on learnings from sampling efforts, additional data available through payments based on NLAD, and implications of the National Verifier being operational.

Attachment A

Operational Metrics Highlights

Operational Metrics - Lifeline Scorecard – Q4 2017

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

PROGRAM OUTCOMES

Performance Measurement Model

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

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

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

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

OPERATIONAL MEASURES

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

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

STAKEHOLDER EXPERIENCE
Strengthen and simplify stakeholder experience to enable successful participation

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

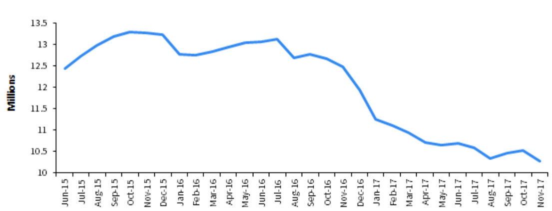
OPERATIONAL EFFECTIVENESS
Continuously improve the efficiency and effectiveness of business processes

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

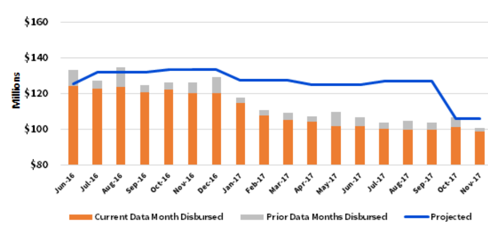
Lifeline Subscribership & Disbursements

This slide based on Form 497 data.

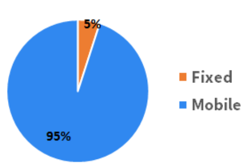
Subscribership



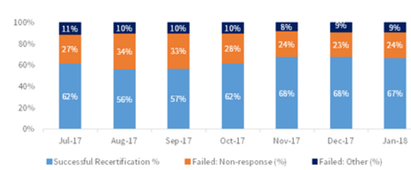
Disbursements



Fixed / Mobile Disbursement Breakdown



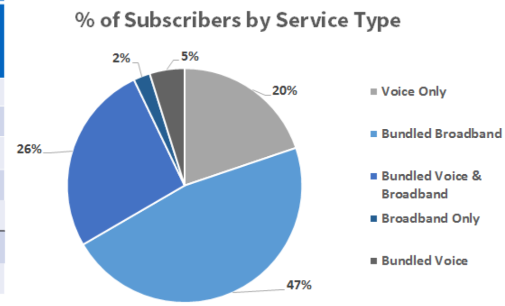
USAC-Elected Recertification



Lifeline Subscribership by Service Type (Broadband Uptake)

This slide based on subscribers as reported in NLAD.

	September 2017	October 2017	November 2017		
Service Type	% of Subscribers	% of Subscribers	# of Subscribers	% of Subscribers	+/- from Previous Month
Voice Only	23.1%	21.5%	1,667,487	19.8%	-1.7%
Bundled Broadband	**44.4%**	**47.0%**	**3,934,911**	**46.8%**	-.02%
Bundled Voice & Broadband	**27.9%**	**27.1%**	**2,209,517**	**26.3%**	-0.8%
Broadband Only	**2.4%**	**2.4%**	**195,777**	**2.3%**	-0.1%
Bundled Voice	2.1%	2.0%	402,262	4.8%	+2.8%
Total Broadband Subscribers	**74.8%**	**76.4%**	**6,340,205**	**75.4%**	
Total			8,409,954		



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

Lifeline NLAD Operations

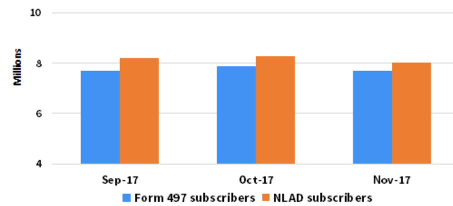
% Enrollments Subject to Dispute Resolution

	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Enrollments + Transfers	553,804	523,484	567,915	410,018
Enroll/Transfer w/Dispute Resolution	39,671	45,318	41,866	25,901
% of Enrollments + Transfers	**7.2%**	**8.7%**	**7.7%**	**6.3%**

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

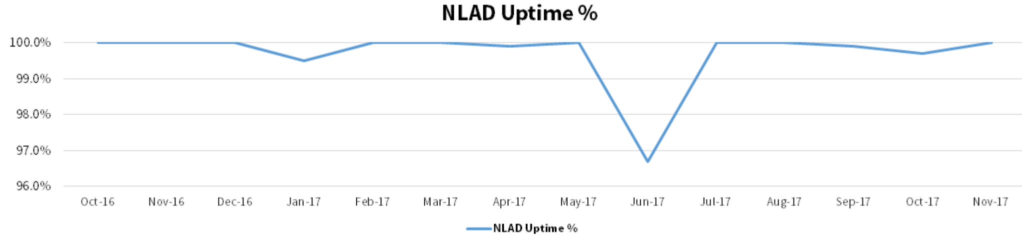
**all figures are monthly averages within each quarter*
***Q4 2017 figures do not include December 2017 data*

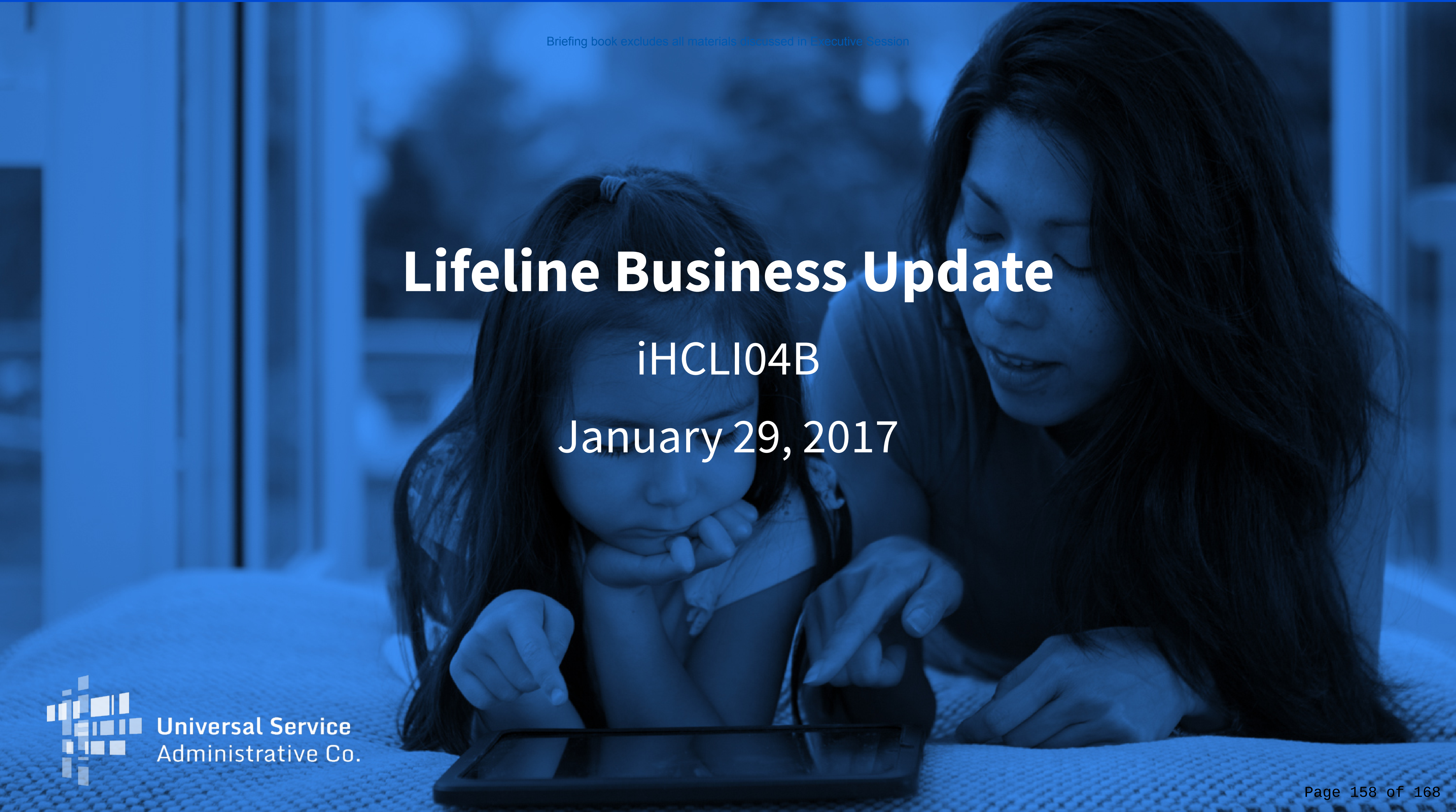
NLAD Subscribers vs. Form 497 Claims



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

NLAD Uptime %





Lifeline Business Update

iHCLI04B

January 29, 2017

Universal Service
Administrative Co.

Agenda

1. Operational Metrics Overview
2. Program Integrity Efforts
3. 2017 Lifeline Order
4. National Verifier
5. 2017 Accomplishments
6. 2018 Look Ahead

Operational Metrics - Lifeline Scorecard – Q4 2017

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

PROGRAM OUTCOMES

Performance Measurement Model

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

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

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

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

OPERATIONAL MEASURES

PROGRAM INTEGRITY

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

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

STAKEHOLDER EXPERIENCE

Strengthen and simplify stakeholder experience to enable successful participation

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

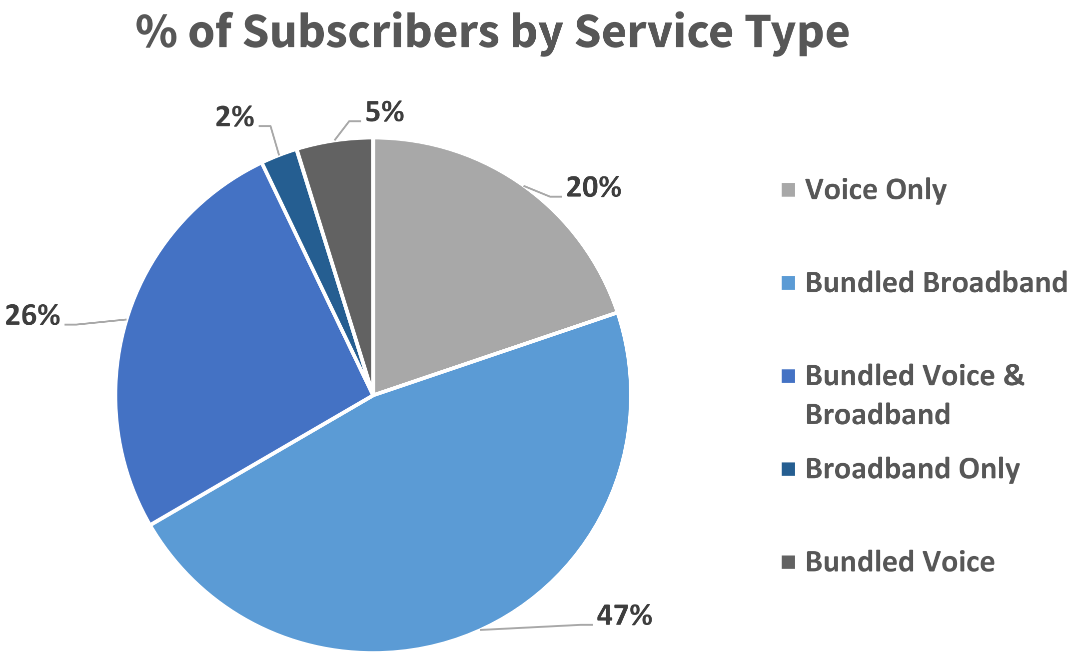
OPERATIONAL EFFECTIVENESS

Continuously improve the efficiency and effectiveness of business processes

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

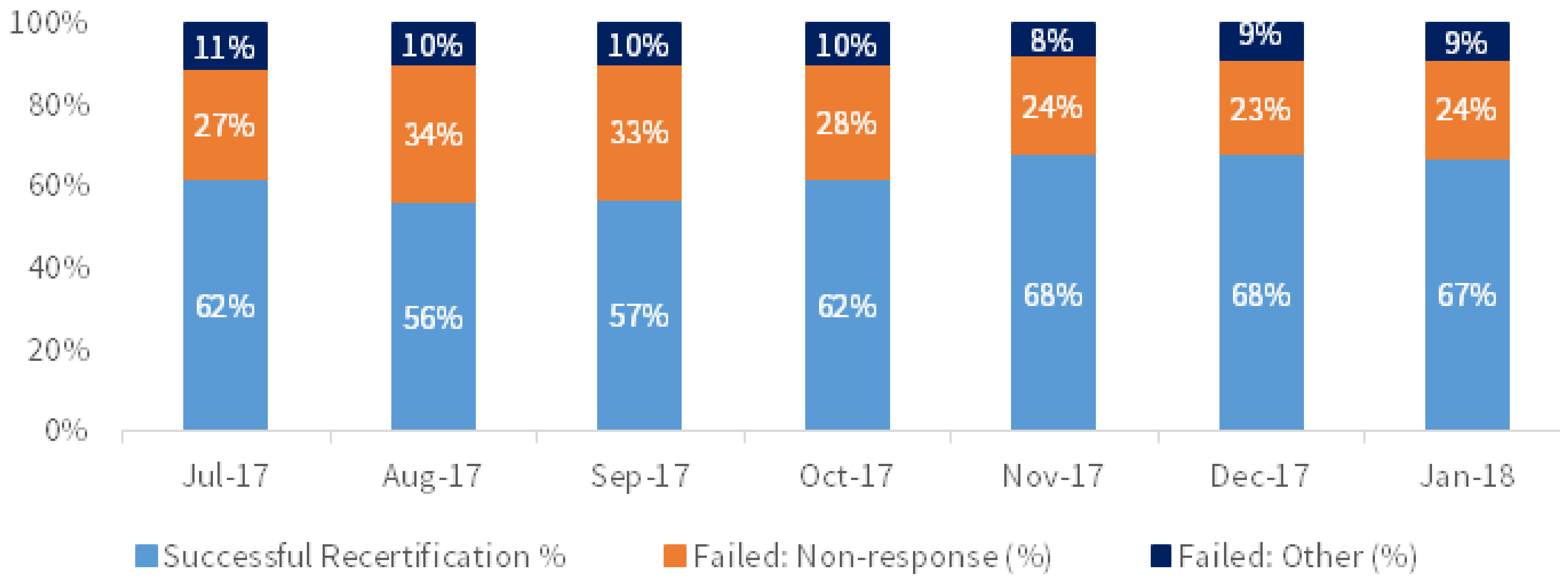
Operational Metrics – Lifeline Subscribership by Service Type

	September 2017	October 2017	November 2017		
Service Type	**% of Subscribers**	**% of Subscribers**	**# of Subscribers**	**% of Subscribers**	**+/- from Previous Month**
Voice Only	23.1%	21.5%	1,667,487	19.8%	-1.7%
Bundled Broadband	**44.4%**	**47.0%**	**3,934,911**	**46.8%**	-.02%
Bundled Voice & Broadband	**27.9%**	**27.1%**	**2,209,517**	**26.3%**	-0.8%
Broadband Only	**2.4%**	**2.4%**	**195,777**	**2.3%**	-0.1%
Bundled Voice	2.1%	2.0%	402,262	4.8%	+2.8%
Total Broadband Subscribers	**74.8%**	**76.4%**	**6,340,205**	**75.4%**	
Total			8,409,954		



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

Operational Metrics – USAC-Elected Recertification



Program Integrity Efforts

Risk Area	Action	Status	Outcome	Next Steps
Deceased Subscribers	Implement SSA Death Master File in NLAD	Completed early on 11/1/2017 *(scheduled 12/31)*	**726 (.1%) enrollments prevented**	Quarterly sampling of existing subscribers
Exact Duplicates	Evaluate 5,500 exact duplicates identified by GAO	Compared GAO data to NLAD today	**98% were resolved by 2015**, remainder by 2017	None at this time
Oversubscribed Addresses	Evaluate 59 addresses with 500+ subscribers identified by GAO	Compared GAO data on 48 addresses to NLAD today	**One address from GAO with 500+ today**	Address subject to 500+ review, below
	Conduct review of all subscribers in 500+ addresses	Required carriers to validate addresses and ensure IEH on file for 7k subscribers	**4,770 (67%) subscribers de-enrolled**	Reviewing samples of 500+ carrier documentation to validate the review. Began sample reviews of 25+ addresses
Third Party Identity Disputes	Sample carrier reviews of identity documentation	Reviewed documentation for 90 enrollments	**100% satisfactory**, 10 data entry errors corrected	Continued sampling

2017 Lifeline Order

- The Order, released on December 1st, makes the following changes:
  - Limits the enhanced Tribal Lifeline support to facilities-based providers
  - Limits the enhanced Tribal Lifeline support to subscribers living on Tribal lands that are rural
  - Eliminates the benefit port freezes of 60 days for voice service and 12 months for broadband service that were implemented in December 2016
  - Clarifies that Lifeline support is not available for “premium wi-fi” services that require a wi-fi hotspot

	Order Released	Federal Register Publication of Order	OMB Approval Announced by WCB	Implementation Deadline
	December 1, 2017	January 16, 2018	TBD	OMB + 90 Days (no earlier than 8/1)
Port Freeze	December 1, 2017	January 16, 2018	N/A	March 19, 2018

National Verifier Update

- On December 1st, the initial soft launch scheduled for December 5, 2017 was delayed to early 2018 to allow time for Federal Information Security Management Act (FISMA) accreditation.
- The revised initial soft launch date are expected to be available by the end of January 2018, with ample notice for users in the initial states to prepare.
- Despite this delay, all Computer Matching Agreements and technical work was completed for the soft launch, allowing teams to pivot to additional forthcoming deadlines.
  - Initial hard launch technical development due by Accenture March 13, 2018.
  - Additional 19 states/territories due to be implemented by December 31, 2018.
- Once the revised initial launch schedule is known, the timing of future implementation waves can be determined.

2017 Accomplishments

Lifeline Safeguards Plan

Developed the plan in response to Chairman Pai's July 11, 2017 letter, and implemented timely to date

Companies Near Me Tool

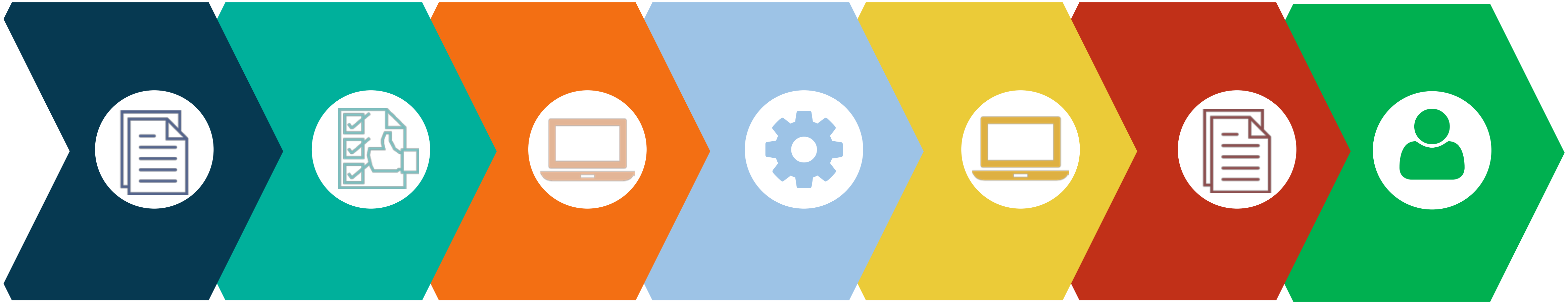
Implemented a zip code based search tool for consumers to find available Lifeline providers

All Online FCC Form 555

Transitioned the FCC Form 555 to an all online process

National Verifier Soft Launch Development

Developed the system and processes for the initial soft launch, including collection of feedback from and training of future users



Disbursement Integrity

Implemented a process to prevent reimbursement claims in excess of subscribers validated through NLAD

Deceased Subscriber Check

Integrated the SSA Death Master File into NLAD's validations

Computer Matching Agreements

Executed agreements with five agencies to leverage state or federal data for automated National Verifier eligibility validations

1Q2018 to 2Q2018 (look ahead)

PROGRAM INTEGRITY

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

- Launch the National Verifier in the first six states, and negotiate additional CMAs
- Continue implementation of the Lifeline Safeguards Plan:
  - Implement payments based on NLAD , retiring the FCC Form 497 self-claim process
  - Complete analysis of GAO identified ineligible and deceased subscribers
  - Implement quarterly eligibility sampling where the National Verifier is not operational
  - Continue other existing ongoing sampling
- Procure a vendor to begin a Lifeline Risk Assessment

USER EXPERIENCE

Strengthen and simplify user experience to enable successful participation.

- Seek input during the National Verifier soft launch to inform hard launch enhancements
- Transition the various existing customer service functions to the new Business Process Outsource vendor (BPO) without impact to service levels or customer experience
- Provide timely and helpful information to program participants related to the 2017 Lifeline Order

OPERATIONAL EFFECTIVENESS

Continuously improve the efficiency and effectiveness of business processes.

- Implement metric targets and trending associated with the new National Verifier operations to identify continuous remediation/improvement.
- Effective & efficient FCC Modernization Order implementation
  - Continued National Verifier roll out
  - 2017 Lifeline Order
- Refine Program Integrity approaches based on learnings from sampling efforts, additional data available through payments based on NLAD, and implications of the National Verifier being operational

Universal Service
Administrative Co.