



Universal Service Administrative Company



# **Understanding the High Cost Beneficiary Audit Process**

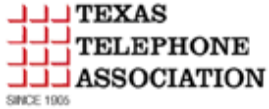
## **USAC Internal Audit Division**

**TTA Accounting Seminar  
The Westin Galleria Dallas  
October 19 - 20, 2005**

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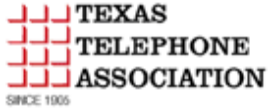
# High Cost Audit Process

- ◆ Why we perform audits
- ◆ How you will know if you are selected
- ◆ Auditing eligibility requirements
- ◆ Components of the High Cost Support Mechanism
- ◆ How we conduct our audits
- ◆ Documenting findings
- ◆ Reporting results
- ◆ How you can help this process

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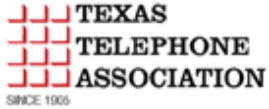
## Why do we perform audits?

- ◆ **Ensure compliance with FCC rules and regulations**
- ◆ **Assist in the prevention and detection of waste, fraud, and abuse**
- ◆ **Provide a level of quality assurance**
- ◆ **Proactively be a part of the control environment**
- ◆ **Identify and recommend process improvement opportunities**

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# How will you know if you have been selected for an audit?

- ◆ **Announcement letter is sent to company's designated contact person. It includes information about the:**
  - Personnel performing the audit
  - Time period being audited
  - Documents requested
  - Time period in which to provide those documents
- ◆ **Follow-up with a telephone call with auditors to discuss any questions or concerns**



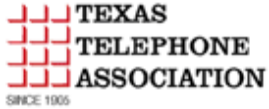
# Testing of Eligibility Requirements

- ◆ **Verification of Eligible Telecommunications Carrier Designation (ETC Order)**
  - Objective: Carrier properly designated
- ◆ **Certifications (10/1 and 6/30)**
  - Objective: Documents submitted timely
- ◆ **Evidence of Advertising**
  - Objective: Availability of services can be supported
- ◆ **Line Counts**
  - Objective: Line counts submitted timely and can be supported

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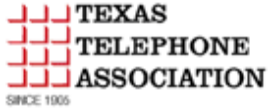
# High Cost Support Mechanism Components

- ◆ **High Cost Loop Support (HCL)**
- ◆ **Local Switching Support (LSS)**
- ◆ **Interstate Common Line Support (ICLS)**
- ◆ **High Cost Model Support (HCM)**
- ◆ **Interstate Access Support (IAS)**
- ◆ **Long Term Support (LTS)**
  - This component will no longer be audited as a separate support component. It will be examined as part of ICLS.

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# How we conduct our audits

## ◆ High Cost Loop Support (HCL)

- Cost and Average Schedule Companies and Competitors
  - Line counts
    - Obtain summary schedule by line type, which was used to compile line counts reported (e.g., billing system report)
    - Obtain subscriber listing (name, address, phone number, etc.)
    - Select sample of bills
- Cost Companies
  - Obtain documentation to support each amount reported on the Data Collection Form (e.g., trial balance, cost study report)
  - Select sample and obtain further supporting documentation (e.g. invoices)
  - Perform inventory of fixed assets (via continuing property records or equivalent)
- Average Schedule Companies
  - Obtain documentation to support number of exchanges (e.g., yellow page directory, state approved document showing exchanges served)

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# How we conduct our audits (continued)



## ◆ Local Switching Support (LSS)

- Cost and Average Schedule Companies and Competitors
  - Line counts
    - Obtain summary schedule by line type, which was used to compile the line counts reported (e.g., billing system report)
    - Obtain subscriber listing (name, address, phone number, etc.)
    - Select sample of bills
- Cost Companies
  - Obtain documentation to support each amount reported on the LSS Form (e.g., trial balance)
  - Select sample and obtain further supporting documentation (e.g., invoices)
  - Compare projected amounts to true-up
  - Perform inventory of fixed assets (via continuing property records or equivalent)
- Average Schedule Companies
  - Obtain documentation to support number of exchanges and access minutes (e.g. access minutes report)

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## How we conduct our audits (continued)



### ◆ Interstate Common Line Support (ICLS)

- Line Count testing
  - Obtain summary schedule by line type, which was used to compile the line counts reported (e.g., billing system report)
  - Obtain subscriber listing (name, address, phone number, etc.)
  - Select sample of bills
- Obtain Form 507, 508 and 509 (or equivalent data)
- Obtain supporting documentation for the true up amounts reported (e.g., financial statements)
- Compare projected amounts to true up

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## How we conduct our audits (continued)



### ◆ High Cost Model Support (HCM)

- Line Count Testing
  - Obtain summary schedule by wire center, which was used to compile the line counts reported (e.g., billing system report)
  - Obtain subscriber listing (name, address, phone number, etc.)



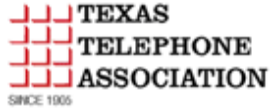
# How we conduct our audits (continued)



## ◆ Interstate Access Support (IAS)

- Line Count Testing
  - Obtain summary schedule by line type
  - Obtain subscriber listing (name, address, phone number, etc.)
  - Select sample of bills
- Obtain documentation to support CMT (Common Line Marketing Transitional) Revenue (e.g. federal tariff filing and related workbook)
- Obtain documentation to support UNE (Unbundled Network Element) Zone rates (e.g. state approval letter or equivalent)
- Obtain documentation to support CLLI code-to-zone classification (e.g. state approval letter or equivalent)

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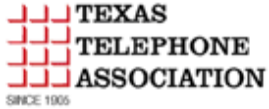
# Post Audit: Documenting Findings

- ◆ **Prepare Detailed Exception Worksheets (DEWs)**
- ◆ **These worksheets contain**
  - Background information
  - Audit step performed
  - Exception (finding) noted
  - FCC rule violated
  - Carrier response
    - The Carrier is given the opportunity to respond to the exception within five business days
  - High Cost management response
    - High Cost management addresses the exception noted and notes any corrective action as necessary

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# Reporting Results

- ◆ Document all work performed in workpapers
- ◆ Review of workpapers conducted by Internal Audit management
- ◆ Prepare draft audit report
- ◆ Incorporate Carrier and HC management responses
- ◆ Submit to Board of Directors
- ◆ Provide final audit report to Carrier and FCC
- ◆ The final report may be made available to the public upon request.

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## How can you help?

- ◆ **Provide documentation in a timely manner**
- ◆ **Ask questions to ensure you are providing adequate documentation**
- ◆ **Keep accurate records of all data submitted and properly label such records**
- ◆ **If supporting documentation does not agree to the amounts reported, provide a reconciliation schedule**
- ◆ **DOCUMENT everything!**

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*Thank You*

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