

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20054

In the matter of )  
 )  
Comprehensive Review of the )  
Universal Service Fund Management, ) WC Docket No. 05-195  
Administration, and Oversight )

REPLY COMMENTS OF THE  
INDEPENDENT TELEPHONE & TELECOMMUNICATIONS ALLIANCE

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## **SUMMARY**

ITTA supports the Commission's interest in ensuring the efficient and lawful execution of Universal Service Fund (USF) collections and distributions. In these reply comments, ITTA addresses the audits conducted under the aegis of the Commission's Office of the Inspector General (OIG). Having surveyed its members and after evaluating their audit experiences with those described by others in the industry, ITTA offers recommendations for modification, clarification, and standardization of audit procedures that will enhance the Commission's opportunity to use audits to measure compliance with USF regulations.

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To the Commission:

**I. INTRODUCTION**

The Independent Telephone & Telecommunications Alliance (ITTA) hereby submits reply comments in the above-captioned proceeding. ITTA members collectively serve 30 million access lines across 45 states. ITTA members provide service largely in rural areas, and have been at the forefront of delivering innovative voice, broadband, and video services to those communities.

In this filing, ITTA focuses on the Commission’s stated interest in “what extent the Commission’s oversight of the USF can be improved,” with specific attention to audit oversight undertaken by the Commission’s Office of the Inspector General (OIG).<sup>1</sup> ITTA members are committed to participating in processes intended to ensure the efficient and lawful execution of Universal Service Fund (USF) collections and distributions. Toward that end, ITTA surveyed its members to obtain their perspective on audits conducted recently under the aegis of the OIG, and presents herein recommendations for

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<sup>1</sup> See, *Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight: Notice of Inquiry*, WC Docket No. 05-195, FCC 08-189, at para. 1 (rel. Sep. 12, 2008).

improvements, consistent with ITTA members' experiences and comments submitted previously by other parties. In summary, modification, clarification, and standardization of audit procedures will enhance the Commission's opportunity to use audits to measure compliance with USF regulations.

## II. DISCUSSION

### A. **ITTA SUPPORTS THE COMMISSION'S INTEREST IN MONITORING THE SUCCESSFUL IMPLEMENTATION OF USF POLICIES.**

On November 13, 2008, the Commission accepted comments on the NOI. Many of the comments focused on the audit process, and many cited concerns relating to the manner in which the audits are conducted and the consequent findings. On November 26, 2008, the OIG released an internal report at the Commission, and on December 1, 2008, the OIG presented Congress with its report. During this period, ITTA surveyed its member companies, including subject matter experts (SMEs) who had worked alongside the OIG's contract auditors during examinations. ITTA and its members support the Commission's interest in monitoring the successful implementation of USF policies, and agree that audits are a useful tool for *post hoc* review; as noted by OPASTCO, many companies have internal audits prepared for purposes of satisfying lenders.<sup>2</sup>

Accordingly, carriers are generally familiar with audit processes and are in a reasonable position to provide meaningful comment on the audits conducted under the aegis of the OIG.

The responses to ITTA's survey revealed a mosaic of experiences. While some carriers identified few discrete problems, others described audits that, when held against multiple state commission audits spanning three decades (and across different

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<sup>2</sup> OPASTCO at 4.

jurisdictions) were the “worst . . . ever seen.” Notably, however, responses often revealed common criticisms. Based on these results, ITTA submits that the OIG audits as executed thus far suffer from flawed, but fixable, implementation. Specifically, ITTA review identified three areas that would benefit from improvement. They are: (1) auditors’ knowledge of telecommunications practice and regulation; (2) clarification of the Commission’s relevant document retention rules; and (3) opportunity for more efficient carrier participation in the audit process. Proper attention to these issues will enable the Commission to achieve greater effectiveness in the audit process, thereby leading to greater value.

**B. THE AUDIT PROCESS WOULD BENEFIT FROM IMPROVEMENT IN THREE KEY AREAS.**

**1. Auditor’s Knowledge of Telecommunications Practice and Regulation.**

The audit process would benefit from auditors who possess familiarity with telecommunications practice and regulation. ITTA members reported that auditors were generally knowledgeable about audit processes and accounting. Difficulties arose, however, when auditors’ unfamiliarity with telecommunications regulation and practice resulted in inefficiencies or misunderstandings that implicated material findings. For example, members noted instances in which auditors were not familiar with certain industry terms, such as “COE” (central office equipment), or practices, such as mass asset accounting. The need to ensure that auditors enter armed with relevant knowledge is illustrated by a carrier’s report that one audit firm did not recognize that the summarized account 2410 on the High Cost Loop data submission was the total of the 2411-2441 accounts on the General Ledger. While these instances may be isolated, the frequency with which similar complaints arose among different ITTA respondents indicates a

general lack of familiarity with telecommunications among many auditors. This potential problem, however, can be resolved through pre-audit education, as evidenced by members' experiences.

Some members who experienced audits in both rounds reported that certain of the auditors appeared to have taken at least brief educational courses in telecommunications between the first and second rounds. These members reported that the apparent acquisition of telecom-specific knowledge was helpful as auditors embarked on the second round. One company stated, "I could not get a feel for the audit firm's knowledge of USF. I will say that we had one firm in back to back years and in the second year they seemed more knowledgeable about certain aspects of the telecom industry, such as line count rules and categorization of assets."

Similar concerns attended perceived auditors' knowledge of USF. Although some ITTA members forgave the need for auditors' in-depth familiarity with USF, others found gaps in knowledge detrimental. Specifically, carriers cited confusion regarding various USF programs, including LSS, ICLS, and High Cost Loop, and the discrete calculations and formulae applicable to each program and consequent USF distributions was cited. As was the case with telecommunication equipment and regulatory policy, generally, ITTA members reported that auditors' fluency increased as the audits progressed. The overall level of familiarity with the industry, however, was generally disappointing and, ITTA submits, has made the auditors unrealistically critical and added unnecessarily to the costs and burdens of the audit process.

ITTA members found that auditor experience and education correlated to the ability of auditors to spend efficient time in the field. Auditors familiar with the process

and with telecom generally reportedly “asked the right questions” and were able to identify accurately the information they needed in order to move forward. By contrast, auditors who lacked an adequate level of telecom expertise often contributed to some levels of inefficiency by frequently being unable to articulate or otherwise identify properly the information they needed. None of these reports, however, indicated any willful intent on the part of auditors to frustrate the process or create delay. If anything, in some instances the auditors were able to conclude their business so quickly as to leave carriers wondering whether the auditors’ site visit was worth the apparent cost of travel. In one instance, auditors from “out of town” spent fewer than 30 minutes verifying deployment of an asset, after-which the auditors retrieved a local tourism guide and asked company representatives for directions to area attractions. While efficiency in the site visit is certainly commendable, this event did not instill within the carrier confidence in the process.

ITTA suggests that sufficient introductory educational courses in telecommunications technology and regulation be provided to auditors prior to their engagement with the companies. These would provide opportunity for pre-audit review of telecommunications and Commission-specific regulations, as well as introduction to the environment in which carriers deploy networks and account for costs. Carriers undertake substantial audit-related expenses. In working with the auditors, companies reported deploying personnel from regulatory, costing, financial reporting/general ledger operations, accounts payable, labor and payroll, continuing property records, tax, billing, consumer/business service order operations, and engineering. Other significant costs incurred by a company may include data processing associated with the retrieval of

billing records and service address information, printing costs (*e.g.*, invoices, customer bills), and travel expenses. In light of these commitments, carriers should be able to expect audit staffs that are equipped with requisite knowledge suitable to the task at hand. Carriers reported committing, variously, 75 percent of their accounting staff time to audits during a four-month period, not including time spent by finance, engineering and other groups; one member estimated that consulting fees and internal costs exceeded \$400,000. Another member identified 1,200 hours, including work from the accounting group, field visits, cost study reviews, data gathering, and IT work. One ITTA member recalled that auditors required carrier assistance in developing testing processes for CPRs due to their lack of knowledge of CWP and mass asset accounting. The carrier remarked, “In sum, the majority of the issues that we encountered were related to the auditors’ lack of knowledge and unreasonable expectations rather than an unclear audit process.” Accordingly, the engagement of auditors familiar with the industry and its processes would enable more efficient, and consequently, less-costly, use of both carrier and Commission resources during the audit period.

## 2. Clarification of the Commission’s Document Retention Rules.

The efficient execution of audits would benefit from the Commission’s clarification of document retention rules that apply during audits. Several ITTA members consistently identified instances in which auditors misapplied the relevant document retention rules. This concern is consistent with filings made in this docket by other parties: USTelecom, for example, noted that auditors were commonly applying document retention rules for timeframes in which those rules did not apply,<sup>3</sup> while OPASTCO cited the need for clarification of precedence where apparent conflict among

<sup>3</sup> USTelecom at 3.

rules arises.<sup>4</sup> In one ITTA member's experience, auditors requested access line information at a line level detail for periods in 2004 and 2005 that varied from the current USAC data retention recommendations located on the USAC website;<sup>5</sup> the recommendation states that line count data should be "system generated reports agreeing to number of lines filed," and the carrier's records were consistent with all the prior audits that carrier had encountered. Another example of discrepancies between the way the company maintains records and the way the auditors envisioned arose with regard to billing cycles: while line reporting is based on "end of year," a company whose reporting was based on bill cycle date (*e.g.*, the 15<sup>th</sup> of the month) was labeled as "non-compliant" since the 15<sup>th</sup> of December would not coincide with December 31<sup>st</sup>, which matches literally the "end of year" language.

Carriers reported frequent issues involving the production of historic records. One ITTA member reported, "There are many instances where the audit team selected a sample from our property records that went as far back as 1972." Another carrier noted that auditors consistently cited the IPIA, but not Commission retention guidelines. That carrier's audit team, when faced with a lack of a work order that would substantiate cable location, directed the carrier to unearth the cable to prove that it was, in fact, deployed. The audit team then cited the carrier for lack of documentation. Even where none of the audit findings attached a monetary amount to a finding for lack of documentation, these types of findings were generally included on the final audit report.

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<sup>4</sup> OPASTCO at 10.

<sup>5</sup> Located on the USAC website as of December 8, 2008, dated September, 2007, and located at <http://www.universalservice.org/hc/about/understanding-audits.aspx>

In initial comments, Qwest urged the Commission to refine the audit process.<sup>6</sup> OPASTCO spoke specifically to the need for the Commission to clarify the document retention rules, as did NECA.<sup>7</sup> As described herein, many auditors have arrived at audit sites unfamiliar with industry practice and regulations. Although certain parts of the knowledge chasm may be bridged by experience and education, the consequences are potentially more serious when the result of inexperience is an incorrect reading of applicable regulations that consequently impose improper questions on a carrier's actions. ITTA urges the Commission to clarify the applicable document retention rules and to ensure that audit filings based on misinterpreted regulations be revised promptly and with minimal carrier burden and expense to reflect actual lawful practice.

### **3. Efficient Carrier Participation in the Audit Process.**

In its survey, ITTA asked members questions related to the administrative execution of the audits, including whether sufficient time was allowed for carriers to respond to auditor inquiries; whether the audit process was generally efficient or inefficient; whether carriers felt that the process produced a fair assessment of their company; and, what sort of steps might improve the process. The results of the survey revealed a range of experiences and impressions. In this regard, ITTA can provide a frank and honest analysis of the process as experienced by its members.

Carriers interviewed by ITTA generally reported instances in which greater efficiency would be realized by modifying the time-frames in which auditors require

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<sup>6</sup> Qwest at 6.

<sup>7</sup> OPASTCO at 9; NECA at 3.

responsive documents. Although initial data requests frequently focused on generic information that is generally readily available, *i.e.*, a company's by-laws, ETC certification, etc., some carriers found that a 10-day period was insufficiently short where the volume and age of the data requested placed significant strains on a carrier's ability to produce the documentation; specific concerns were related to the ability to obtain quickly old data stored off-site. Other ITTA members found that the initial 10-day turnaround frequently imposed was generally acceptable. There was wider agreement, however, that in many instances, auditors requested unreasonably rapid responses to follow-up questions that in reality warranted more time for response. For example, in some instances, auditors requested information in a format different than that in which a carrier kept its records, and demanded a two business-day turn-around. The audit process should recognize reasonable administrative factors and provide scalable response times based on the volume of data requested, the nature of the data, the age of the data, and the resources of the carrier in order to ensure that carriers have a reasonable amount of time to respond to auditors' requests.

ITTA members often operate companies in numerous study areas. One carrier reported that it was audited by the same firm twice, but for separate regions. The repetition, however, was beneficial, since the audit firm recognized the efforts involved in compiling data, and staggered its requests in an attempt to not impose an undue burden on the responding carrier. This approach is necessary, because responding to audit requests can consume nearly the entire resources of a carriers' accounting or other involved staff; approaches that enable carriers to also tend to normal and ordinary

business are necessary. Accordingly, ITTA submits that the practice this firm undertook should be incorporated into standard audit processes.

ITTA members also revealed that the current process does not provide a defined mechanism through which carriers can state their opinion of the auditor's findings. Lacking clear resolution as to when a company can present its case, the company is limited to only a standard representation letter. While carriers can communicate with other firms during the peer review phase of the audit, there is no clear guaranteed mechanism by which carriers can contemporaneously share concerns as the audit is submitted to the OIG. One ITTA member characterized the OIG audits as more rigorous than any state audits in which it had been involved, but noted that the unfamiliarity of the auditors with telecommunications industry rendered them more difficult than company had experienced in decades. The lack of standardized process, and the benefits that would accrue from them, can be discerned from the following carrier response:

The answer is mixed depending on the firm. Some firms spent a solid week doing comprehensive field work in our office and asking the questions that are easiest answered face to face. Other firms spent a few very short days in our office, many of them behind closed doors and not being seen the entire day. Then when they went back to the office, I would get bombarded with questions. This one firm also came out a few times with the same results. It was almost like we were just renting space to them to do their training and work on other audits.

Among the more troubling aspects of the audit process, however, is the manner in which the results have been reported by the OIG. The auditors generally distinguish between actual overpayment and underpayments applicable to a particular carrier. By disturbing contrast, however, the OIG report estimates the annualized erroneous payment amounts as an absolute value. Therefore, if a carrier received an overpayment of \$2,000.00, and an underpayment of \$2,000.00, the OIG reports an absolute value of

\$4,000.00. This result overstates and distorts the overall “at risk” audit amounts. Furthermore, a carrier faced with such findings would find \$2,000.00 subject to recovery, but would not be in a position to recover the amounts incorrectly not paid. In the face of growing interest in USF reform, it behooves the Commission and the OIG to ensure that an accurate representation of audit results is presented to the public, and that the benefits of USF are not subject to damaging misinterpretation.

### III. **CONCLUSION**

As described above, ITTA supports the Commission’s interest in ensuring the efficient and lawful execution of Universal Service Fund (USF) collections and distributions. Accordingly, ITTA supports modification, clarification, and standardization of audit procedures that will enhance the Commission’s opportunity to use audits to measure compliance with USF regulations.

Respectfully submitted,

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