

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20054**

In the Matter of)	
)	
Request for Review by AT&T Inc. of)	CC Docket No. 96-45
Decision of Universal Service)	WC Docket No. 05-337
Administrator)	

**REQUEST FOR REVIEW BY AT&T INC. OF
DECISION OF THE UNIVERSAL SERVICE ADMINISTRATOR**

I. STATEMENT OF INTEREST AND ISSUES

Pursuant to sections 54.719(c), 54.721 and 54.722 of the Commission’s rules,¹ AT&T Inc., on behalf of its subsidiaries Acadiana Cellular General Partnership, Lafayette MSA Limited Partnership and New Cingular Wireless PCS, LLC (collectively, “AT&T Mobility Louisiana”), New Cingular Wireless PCS, LLC (“AT&T Mobility Mississippi”) and CCPR Services, Inc. (“AT&T Mobility Puerto Rico”) (collectively, the “Companies”), hereby seeks review of the Universal Service Administrative Company’s (“USAC”) finding that the Companies were in “material noncompliance” with the Commission’s high-cost rules. This audit finding was based entirely on an unreasonably low quantitative materiality threshold of \$100,000 contained in USAC’s “guidelines for materiality” for high-cost audits. Based on these guidelines, which do not appear to be public, USAC’s third-party auditor issued a finding that the Companies were in “material noncompliance” because they had submitted inaccurate line count filings during the audit period.² The Companies do not dispute that they unintentionally submitted inaccurate line

¹ 47 C.F.R. §§ 54.719(c), 54.721, 54.722.

² The audit period ran from July 1, 2006 to June 30, 2007.

count filings, which they promptly corrected through revisions.³ The Companies also believe that it was appropriate for USAC to adjust their disbursements based on the revised line count submissions. AT&T strongly disagrees, however, that any under- or overpayment resulting from these original, inaccurate line count filings was “material” and that the Companies therefore have “material weaknesses” in their internal controls and are in material noncompliance with the Commission’s rules. For AT&T Mobility Louisiana, the cumulative effect of its original line count filings was an underpayment of 0.10%;⁴ for AT&T Mobility Mississippi, the cumulative effect of its original line count filings was an overpayment of 1.17%;⁵ and for AT&T Mobility Puerto Rico, the cumulative effect of its original line count filings was an overpayment of 0.65%.⁶

The same third-party auditing firm audited all of the Companies’ affiliates and issued an identical finding of material noncompliance for all three entities based on USAC’s materiality guidelines, which AT&T is appealing herein. Thus, for ease of administrative review and efficiency, in this request for review, AT&T is appealing that finding on behalf of all of the Companies. For the reasons provided below, AT&T requests that the Wireline Competition Bureau (“Bureau”) or Commission reject USAC’s finding that the Companies were in “material noncompliance” with the Commission’s rules based on USAC’s arbitrary and unreasonable \$100,000 quantitative materiality threshold. Instead, AT&T requests that the Commission find

³ The Companies made many of these revisions eight months before being notified that they were going to be audited as part of the so-called Improper Payments Information Act of 2002 (“IPIA”) Round 2 high-cost audits and made all but one of them prior to the third-party auditor issuing its final report.

⁴ See Appendix A (Independent Accountant’s Report, Report No. HC2007BE087 at 3). Appended to the final audit reports for all of the Companies is USAC’s Management Response. Unlike AT&T’s experience with prior audits, the Companies did not receive these documents together with the letter from USAC notifying them of their right to appeal the decisions contained in the audit reports. On February 23, 2009, the Companies each received a generic letter from USAC informing them of their right to appeal. See Appendix D.

⁵ Appendix B (Independent Accountant’s Report, Report No. HC2007BE088 at 5).

⁶ Appendix C (Independent Accountant’s Report, Report No. HC2007BE076 at 5).

that any noncompliance due to the Companies' erroneous line count filings made during the audit period was immaterial.⁷

The third-party auditor issued a second identical finding against all of AT&T Mobility's affiliates that were the subject of IPIA Round 2 high-cost audits.⁸ This second finding, that AT&T Mobility's affiliates were required to separately identify and advertise each of the services supported under section 54.101(a) of the Commission's rules⁹ along with the related charges, is not ripe for appeal. On March 10, 2009, all seven AT&T Mobility affiliates received an identical letter from USAC informing them that USAC sought guidance from the Commission on the "specifications of the advertisement of federal universal service supported mechanisms."¹⁰ According to USAC, it was "commonly found" during the IPIA Round 2 audits that "although carriers advertised their basic service which included all nine supported services, they were found non-compliant with FCC Rules due to those supported services not being listed individually and/or without their pricing therefore."¹¹ According to USAC, "[n]o further action is required by the Beneficiary at this time. At such time USAC receives clarification from the FCC, USAC reserves the right to take further action, if required, consistent with advertising guidance provided."¹² AT&T thus reserves *its* right to file a subsequent request for review should the Bureau advise USAC that AT&T Mobility's affiliates are required to include in their

⁷ We note that there is no monetary value associated with AT&T's request for review. The Companies have already submitted to USAC revised line count filings and USAC has already made or will soon make appropriate adjustments to the Companies' high-cost disbursements. Thus, granting AT&T's request for review will have no financial impact on the universal service fund.

⁸ In addition to the Companies, these affiliates include AT&T Mobility Alaska, AT&T Mobility Michigan, AT&T Mobility Washington, and AT&T Mobility Wisconsin.

⁹ 47 C.F.R. § 54.101(a).

¹⁰ See Appendix E (Letter to Mike Tan, New Cingular Wireless, from High Cost and Low Income Division, USAC, dated March 10, 2009).

¹¹ *Id.* at 1.

¹² *Id.*

advertisements that “dual tone multi-frequency signaling or its functional equivalent” is available for \$0.00; “single-party service or its functional equivalent” is available for \$0.00; and, among the other supported services, “access to emergency services” is available for \$0.00.¹³

II. STATEMENT OF FACTS

Only eligible telecommunications carriers (“ETCs”) may receive federal high-cost universal service support.¹⁴ In order to receive high-cost support, competitive ETCs, such as the Companies, are required to submit quarterly line count filings to USAC by a specified date using FCC Form 525. On this form, filers must note whether the filing is an “original” or a “revision.”¹⁵ During the audit period, the Companies made the “original” filings by the applicable deadlines. At some later date, AT&T personnel determined that, as a result of a few independent causes, the Companies unintentionally submitted inaccurate line counts during the audit period. The Companies corrected and re-filed the line count filings with USAC in July 2007 and May 2008.

On March 24, 2008, the Companies were notified that they had been selected for examination as part of the IPIA Round 2 high-cost audits. Beginning at or around April 18, 2008, the Companies began providing data and other responsive materials to USAC’s third-party auditor. On September 15, 2008 (not July 10, 2008, which is the date on the final audit reports), the third-party auditor issued its final audit reports to the Companies. In those final audit reports, the Companies were provided in writing, for the first time, the materiality standard the auditor used in determining whether the Companies’ complied with the Commission’s high-cost rules in all material respects. The auditor states that “[a]ccording to USAC’s guidelines for materiality on these examinations, any non-compliance which results in a monetary impact which exceeds

¹³ See 47 C.F.R. § 54.101(a).

¹⁴ 47 U.S.C. § 254(e).

¹⁵ See FCC Form 525 at 1 (field 14). See also Instructions for Completing Competitive Carrier Line Count Report FCC Form 525 at 5.

the lesser of 5% of funds disbursed, relative to each component of the [high-cost program], or \$100,000 is considered material. This includes both over and understated amounts. The amounts identified in our examination exceeded \$100,000.”¹⁶ As noted above, the amount of money disbursed (or underpaid for one mechanism in the case of AT&T Mobility Louisiana) that the Companies later determined to be incorrect was far beneath the 5% threshold, yet exceeded \$100,000. For AT&T Mobility Mississippi the total was 1.17% of overall disbursements;¹⁷ for AT&T Mobility Puerto Rico the total was 0.65%;¹⁸ and for AT&T Mobility Louisiana the total was an underpayment of 0.10% of overall disbursements.¹⁹

According to the auditor, because the Companies’ over- and understated amounts exceeded \$100,000 and thus met USAC’s guidelines for materiality, the Companies are deemed to have “significant deficiencies in the related internal control environment.”²⁰ In addition, the auditor concluded that, since significant deficiencies are also material weaknesses, it considered this finding to be a material weakness.²¹ The auditor states that it performed its examination of the Companies “in accordance with attestation standards established by the American Institute of Certified Public Accountants [AICPA] and standards applicable to attestation engagements contained in *Government Auditing Standards*. . . .”²²

¹⁶ Appendix A at 6; Appendix B at 5; Appendix C at 5.

¹⁷ Of that total, high-cost model support accounted for 1.0% and interstate access support accounted for 3.5%.

¹⁸ AT&T Mobility Puerto Rico only receives interstate common line support (ICLS). In addition, AT&T Mobility Puerto Rico notes that the auditor applied an incorrect rate when it calculated the monetary impact of this affiliate’s inaccurate line count filings.

¹⁹ Of that total, high-cost loop support accounted for 0.8% and ICLS accounted for an underpayment of 3.4%.

²⁰ Appendix A at 6; Appendix B at 6; Appendix C at 5.

²¹ Appendix A at 2; Appendix B at 2; Appendix C at 2.

²² Appendix A at 1; Appendix B at 1; Appendix C at 1.

Section 601.36 of AICPA's Compliance Attestation standards states in its entirety:

In an examination of an entity's compliance with specified requirements, the practitioner's consideration of materiality differs from that of an audit of financial statements in accordance with GAAS. In an examination of an entity's compliance with specified requirements, the practitioner's consideration of materiality is affected by (a) the nature of the compliance requirements, which may or may not be quantifiable in monetary terms, (b) the nature and frequency of noncompliance identified with appropriate consideration of sampling risk, and (c) qualitative considerations, including the needs and expectations of the report's users.

Section 6.28 of *Government Auditing Standards*, July 2007, states in its entirety:

The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of a subject matter or an assertion about a subject matter, while other matters are not important. In performing the engagement, matters that, either individually or in the aggregate, could be material to the subject matter are a primary consideration. In engagements performed in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels as compared with the materiality levels used in non-GAGAS engagements because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.²³

III. ARGUMENT

The Bureau should reject the auditor's and USAC's systematic application of a numerical materiality threshold (i.e., \$100,000) to all audited ETCs,²⁴ without regard to how much high-

²³ *Government Auditing Standards*, § 6.28 (July 2007) (available at: <http://www.gao.gov/new.items/d07731g.pdf>).

²⁴ AT&T can only assume that USAC's materiality guidelines apply equally to ETCs and competitive ETCs. While AT&T's ETCs have been the subject of USAC's high-cost audits, the auditors have never explained to AT&T's ETCs what quantitative materiality standard they were applying. If USAC has directed its third-party auditors to apply a different quantitative materiality standard when auditing ETCs (as opposed to competitive ETCs), the Commission should find such a practice to be arbitrary and capricious and a violation of its competitive neutrality principle. *See Universal Service First Report and Order*, 12 FCC 8776, ¶ 47 (1997) ("Universal service support mechanisms and rules should be competitively neutral. In this context, competitive neutrality means that universal service support mechanisms and rules neither unfairly advantage nor disadvantage one provider over another, and neither unfairly favor nor disfavor one technology over another.").

cost support the beneficiary receives. Such a formulaic approach to materiality that relies exclusively on a “quantitative” threshold that is not related to the relevant population size or amount being examined and fails to consider “qualitative” factors has no support in federal agency regulatory law, the accounting profession, and relevant case law. While there may be support for USAC’s 5 percent quantitative threshold, which we are not challenging, it would still be contrary to recognized auditing standards for the auditor to rely solely on such a threshold without consideration of any qualitative factors.

The Commission has never publicly addressed what might be an appropriate materiality threshold for high-cost audits. Commission silence in this regard is not unexpected since, in accordance with accounting literature, the auditor’s consideration of materiality is a matter of professional judgment.²⁵ When the auditor concluded that the Companies were in material noncompliance with the Commission’s high-cost rules solely because the erroneously included or excluded line counts had a monetary impact exceeding \$100,000, either the auditor failed to exercise its professional judgment and instead relied completely on USAC’s \$100,000 numerical threshold or USAC’s guidelines were not “guidelines” at all and the auditor was required to apply the \$100,000 numerical threshold and was not permitted to use its professional judgment.

AT&T is aware of just one instance of the Commission (albeit the former Common Carrier Bureau) providing a set numerical materiality threshold to be used by auditors when examining certain carriers. In its RAO Letter 12, issued almost twenty years ago, the former Accounting and Audits Division of the Common Carrier Bureau directed auditors to use a \$1 million materiality threshold when conducting affiliate transaction/cost allocation audits or to govern corrections to the Uniform System of Accounts and ARMIS reports.²⁶ In response to a

²⁵ See, e.g., *Government Auditing Standards* at 75 n.55 (citing AICPA Statement on Auditing Standards No. 107, *Audit Risk and Materiality in Conducting an Audit*).

²⁶ *Attestation Audits Pursuant to the Joint Cost Order and Joint Cost Reconsideration Order*, CC Docket No. 86-111, Responsible Accounting Officers, RAO Letter 12, 5 FCC Rcd 6783 (CCB 1990) (“RAO Letter 12”).

petition filed by AT&T, BellSouth, and Qwest in which these carriers urged the Commission to reject the use of a materiality standard that relies exclusively on a quantitative threshold and immediately eliminate the \$1 million threshold, Bureau staff recommended that the Commission revise RAO Letter 12, noting that it “may not be necessary in the public interest as a result of competition.”²⁷ Even with a numerical threshold set ten times higher than the one contained in USAC’s guidelines, the RAO Letter 12 petitioners noted the inappropriateness of applying a “one size fits all” absolute number to all carriers, regardless of their size.²⁸ The unreasonableness of applying USAC’s \$100,000 threshold to the Companies is just as plain.

If the Commission believes that USAC should provide its third-party auditors with guidance about an appropriate quantitative materiality threshold to be used in all (ETC and competitive ETC alike) high-cost audits, such a threshold should be a percentage, not a numerical amount. AT&T has no reason to doubt that 5 percent is a reasonable quantitative yardstick for these types of federal compliance audits.²⁹ As noted above, the monetary impact of the Companies’ inaccurate line count filings, which they promptly revised upon discovering the errors, amounted to an underpayment of 0.10% for AT&T Mobility Louisiana, an overpayment

²⁷ *2006 Biennial Regulatory Review*, WC 06-157, Staff Report, 22 FCC Rcd 2803, 2816-17 (WCB 2007). Since issuance of the staff report, AT&T, Qwest, and Verizon have received forbearance relief from the Commission’s cost allocation, affiliate transactions and CAM filing rules and, also relief from certain of the Commission’s ARMIS reporting requirements. *See, e.g., AT&T Cost Assignment Forbearance Order*, 23 FCC Rcd 7302 (2008), *petitions for recon. pending*; *ARMIS Forbearance Order*, FCC 08-203 (rel. Sept. 6, 2008), *petitions for recon. pending*. If, upon reconsideration, the Commission upholds its earlier findings contained in these orders, which it should, the relief sought by the RAO Letter 12 petitioners would be moot.

²⁸ *See* Petition of BellSouth Corporation, AT&T Inc. and Qwest Corporation Requesting Modification of RAO Letter 12 and Requesting Expedited Relief, WC Docket No. 05-352 at 12 (filed Dec. 5, 2005) (noting that \$1 million represented a miniscule portion of the petitioners’ regulated operating revenues and expenses).

²⁹ *See, e.g., SBC Michigan II 271 Order*, 18 FCC Rcd 19024, ¶¶ 17-23 & n.60 (2003) (noting with support that Ernst & Young uses a 5% materiality standard when performing merger compliance audits for the Commission).

of 1.17% for AT&T Mobility Mississippi, and an overpayment of 0.65% for AT&T Mobility Puerto Rico.

Although the auditor accurately quotes the AICPA’s compliance attestation materiality standard, which requires the auditor to consider qualitative factors,³⁰ the auditor (and USAC since it concurred with the auditor) gave short shrift to this obligation. Specifically, the auditor was required to consider “qualitative considerations, including the needs *and expectations* of the report’s users.”³¹ While AT&T has no quibble with USAC’s need to have ETCs and competitive ETCs submit accurate line count filings, as noted above, OMB-approved FCC Form 525 requires filers to identify whether the line count submission is an original or a revision. The Commission clearly *expected* filers to have occasion to revise previously submitted line count filings. Such an expectation is sound public policy – the Commission should want carriers to come forward to correct errors in these filings as soon as they discover them. Moreover, as the auditor and USAC know, the Companies had already submitted their revised line count filings prior to the final audit report.³² In several cases, these revisions were submitted eight months before the Companies were notified that they were going to be audited as part of the IPIA Round 2 high-cost audits. If the auditor had appropriately given due consideration to these qualitative factors and had also applied a reasonable quantitative threshold (e.g., 5 percent), it would have correctly concluded that any violation of the Commission’s high-cost rules by the Companies was immaterial. USAC erred in concurring with the auditor’s findings.

IV. CONCLUSION

For the foregoing reasons, AT&T urges the Commission to reject the auditor’s and USAC’s conclusion that the Companies were in material noncompliance with the Commission’s

³⁰ See Appendix A at 6; Appendix B at 5; Appendix C at 5.

³¹ AICPA, Compliance Attestation, § 601.36 (emphasis added).

³² See, e.g., Appendix A, USAC Management Response (“USAC recognizes that the Carrier has refiled lines for all periods and funds will be recovered accordingly. USAC further recognizes that the Carrier has addressed its internal controls related to this finding.”).

high-cost rules because they unintentionally submitted inaccurate line counts, which they subsequently corrected through revisions. The monetary impact of the inaccurate line count filings is far beneath any reasonable quantitative materiality threshold and, when viewed together with appropriate qualitative factors, any violation was plainly immaterial. The Commission should also direct USAC to modify its materiality guidelines to remove \$100,000 as a quantitative materiality trigger.

Respectfully Submitted,

/s/ Cathy Carpino
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April 24, 2009

Its Attorneys

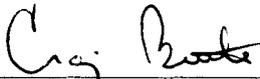
**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20054**

In the Matter of)	
)	
Request for Review by AT&T Inc. of)	CC Docket No. 96-45
Decision of Universal Service)	WC Docket No. 05-337
Administrator)	

DECLARATION OF CRAIG BUTLER

I, CRAIG BUTLER, do hereby, under penalty of perjury, declare and state as follows:

1. My name is Craig Butler, I am a Senior Finance Analyst employed by Cingular Wireless Employee Services LLC, a subsidiary of AT&T Mobility LLC, a wholly owned subsidiary of AT&T Inc. In that capacity, I was and am familiar with the filing of the Form 525s with the Universal Service Administrative Company for the subsidiaries of AT&T Mobility LLC and with the audits that are the subject of this request for review.
2. In accordance with Commission rules, 47 C.F. R. § 54.721 (b)(2), I have reviewed the factual assertions set forth in the appeal and hereby certify that they are true and correct to the best of my knowledge.



Name

Dated: APRIL 24, 2009

APPENDIX A

LA

**INDEPENDENT ACCOUNTANT'S REPORT
REPORT NO. HC2007BE087**

**NEW CINGULAR WIRELESS PCS, LLC
UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
HIGH COST PROGRAM SUPPORT FOR THE YEAR ENDED JUNE 30, 2007
STUDY AREA CODE NO. 279010**

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**INDEPENDENT ACCOUNTANT'S REPORT
REPORT NO. HC2007BE087**

July 10, 2008

New Cingular Wireless PCS, LLC
Universal Service Administrative Company
Federal Communications Commission

We have examined New Cingular Wireless PCS, LLC (the Beneficiary) compliance relative to Study Area Code (SAC) No. 279010 with 47 CFR Part 54, Subparts C, D, J, and K of the Federal Communications Commission's (FCC) rules and related orders governing Universal Service Support for the High Cost Program (HCP) relative to \$31,830,497 of support received from the Universal Service Fund HCP during the 12-month period ending June 30, 2007. Management is responsible for the Beneficiary's compliance with these requirements. Our responsibility is to express an opinion on the Beneficiary's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the Beneficiary's compliance with specified requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Beneficiary's compliance with specified requirements.

Our examination disclosed that the Beneficiary reported inaccurate line counts on its original FCC Form 525 submissions. As a result, it received more High Cost Loop (HCL) support, Local Switching Support (LSS), and Safety Net Additive (SNA) support, and less Interstate Common Lines Support (ICLS) and Interstate Access Support (IAS), than it was eligible to receive for the July 1, 2006 to June 30, 2007 disbursement period.

In our opinion, except for the material noncompliance described in the preceding paragraph, the Beneficiary complied, in all material respects, relative to SAC No. 279010 with 47 CFR Part 54, Subparts C, D, J, and K of FCC rules and related orders governing Universal Service Support for HCP relative to disbursements of \$31,830,497 for telecommunications services made from the Universal Service Fund during the 12-month period ending June 30, 2007.

In accordance with *Government Auditing Standards*, we are required to report significant deficiencies in internal control, identifying those considered to be material weaknesses, violations of provisions of contracts or grant agreements, abuse that is material to the aforementioned requirements, and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion as to whether the Beneficiary complied with the aforementioned requirements and not for the purpose of expressing an opinion on internal control over such compliance or on compliance and other matters; accordingly, we express no such opinion. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the attached Schedule of Findings.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects a Beneficiary's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement relative to the aforementioned support received that is more than inconsequential will not be prevented or detected by the Beneficiary's internal control. We consider Finding No. F01 described in the Schedule of Findings to be a significant deficiency in internal control over support received.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement will not be prevented or detected by the beneficiary's internal controls.

Our consideration of internal control over support received was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that are also considered material weaknesses. We consider Finding No. F01 to be a material weakness.

We also noted an immaterial violation of HCP requirements that we have reported as Finding No. F02 in the Schedule of Findings.

This report is intended solely for the information and use of the Beneficiary, Universal Service Administrative Company (USAC), and FCC and is not intended to be and should not be used by anyone other than those specified parties, however, this report is a matter of public record.

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Operations Managing Partner

NEW CINGULAR WIRELESS PCS, LLC
REPORT NO. HC2007BE087
SCHEDULE OF FINDINGS

FINDING NO. HC2007BE087_F01

Condition

The Beneficiary did not report accurate line counts on its original March 30, June 30, September 30, and December 30, 2006 and March 30, 2007 Form 525 submissions.

Criteria

47 CFR § 54.307 states:

(a) Calculation of support. A competitive eligible telecommunications carrier shall receive universal service support to the extent that the competitive eligible telecommunications carrier captures the subscriber lines of an incumbent local exchange carrier (LEC) or serves new subscriber lines in the incumbent LEC's service area.

(b) In order to receive support pursuant to this subpart, a competitive eligible telecommunications carrier must report to the Administrator the number of working loops it serves in a service area pursuant to the schedule set forth in paragraph (c) of this section.

Cause

The Beneficiary attributed inaccurate line count compilation and reporting to various system deficiencies and errors, including:

- Errors occurring in the transfer of legacy AT&T Wireless subscribers to the Cingular Wireless billing system.
- Deficiencies in the process to filter test accounts from subscriber data.
- IT coding errors in classifying subscribers as Residential & Single Line Business and Multi Line Business.

Effect

Based on line counts reported on revised Form 525 submissions,¹ which were supported with appropriate line count detail, the Beneficiary received more High Cost Loop (HCL) support, Local Switching Support (LSS), and Safety Net Additive (SNA) support, and less Interstate Common Lines Support (ICLS) and Interstate Access Support (IAS), than it was eligible to receive for the July 1, 2006 to June 30, 2007 disbursement period, as follows:

¹ Refers to revised Form 525 submissions dated May 27, 2008 for March 30, June 30, September 30, and December 30, 2006, and revised Form 525 submission dated July 15, 2007 for March 30, 2007. The Beneficiary submitted other revised versions prior to these submissions which we did not review. USAC could not provide the information needed to calculate the disbursement adjustments already made for these submissions.

Support Type	Line Count "As Of" Date	Disbursement Quarter	Eligible Support Over/(Under)
HCL	9/30/05	July-Sept 2006	\$32,259
HCL	9/30/05	Oct-Dec 2006	32,259
HCL	3/31/06	Jan-Mar 2007	62,831
HCL	6/30/06	Apr-June 2007	55,480
HCL Total			\$182,829
LSS	9/30/05	July-Sept 2006	\$1,952
LSS	9/30/05	Oct-Dec 2006	1,952
LSS	3/31/06	Jan-Mar 2007	3,178
LSS	6/30/06	Apr-June 2007	2,837
LSS Total			\$9,919
SNA	9/30/05	July-Sept 2006	\$197
SNA	9/30/05	Oct-Dec 2006	197
SNA	3/31/06	Jan-Mar 2007	318
SNA	6/30/06	Apr-June 2007	389
SNA Total			\$1,101
ICLS	9/30/05	July-Sept 2006	\$(23,334)
ICLS	12/31/05	Oct-Dec 2006	(143,225)
ICLS	3/31/06	Jan-Mar 2007	(21,161)
ICLS	6/30/06	Apr-June 2007	(28,738)
ICLS Total			\$(216,458)
IAS	3/31/06	July-Sept 2006	\$(2,644)
IAS	6/30/06	Oct-Dec 2006	(3,099)
IAS	9/30/06	Jan-Mar 2007	(4,401)
IAS	12/31/06	Apr-June 2007	127
IAS Total			(\$10,017)

Recommendation

We recommend that the Beneficiary and USAC ensure that the revised Form 525 submissions are processed and disbursement amounts adjusted accordingly.

Management Response

Management responded as follows:

AT&T Mobility strongly disagrees with the Auditor's (Cotton & Company) conclusion that AT&T Mobility is in "material non-compliance" with the Federal Communications Commission's ("FCC") rules and related orders governing Universal Service Support for the High Cost Program. It appears that the Auditor's premise for this conclusion is due to AT&T Mobility's filing of Revised Form 525s. The conclusion is misleading and turns good public policy on its head. The conclusion fails to recognize that it was AT&T Mobility's internal controls and due diligence that self-corrected the original Form 525 line count inaccuracies. Further, the conclusion fails to take into account AT&T Mobility's compliance with the Universal Service Administrative Company ("USAC") procedures for filing corrected line counts. The current conclusion penalizes and actually discourages self reporting and corrective action by ETCs. While AT&T Mobility stipulates that it updated its original Form 525 filings, it strongly rejects the notion that these Revised Form 525 filings reflect material non-compliance with applicable rules and requirements.

Likewise, AT&T Mobility strongly disagrees with the audit finding that a subsequent filing of a Revised Form 525s for the relevant audit period means that there is a significant deficiency in AT&T Mobility's internal controls over High Cost Support received which constitutes a material weakness. The audit Finding Condition states, "[t]he Beneficiary did not report accurate line counts on its original ... Form 525 submissions." (Emphasis added.) This fact is undisputed. However, there is nothing in the FCC regulations that prohibits or makes it unlawful for an ETC to file a revised Form 525. In fact, the Form 525, which is approved by the Office of Management and Budget, has a box to check per support mechanism as to whether the filing is an "Original" or a "Revised" filing.

At the time AT&T Mobility filed its original quarterly Form 525 with USAC, AT&T Mobility reasonably believed that it had provided accurate line count information. AT&T Mobility subsequently refiled the Form 525s when it determined that the line count information on file with USAC was incorrect and instituted additional program-wide internal controls to address such situations in future quarterly filings. For example, one of the reasons for the revised Form 525 filing was due to program-wide controls AT&T Mobility instituted in response to a 2007 USAC Support High Cost audit in the State of Mississippi for the period of October 1, 2004 through September 30, 2005. By submitting the Revised Form 525 AT&T Mobility self-corrected the historical inaccuracies in the previous line count submission and thus was in compliance with 47 C.F.R. §54.307. AT&T Mobility, therefore, believes that it has reasonably complied with all applicable FCC requirements in all material respects.

AT&T Mobility has proper controls in place to prevent any material noncompliance with FCC High Cost Support rules and specifically to prevent overstatements in the Form 525s filed with USAC.^{MR1} AT&T Mobility notes that the cumulative effect of the revised Form 525 filings for Louisiana based on the calculation performed by Cotton & Company is an underpayment to AT&T Mobility of 0.12% compared to disbursements made by USAC.^{MR2} AT&T Mobility reiterates that it unilaterally took corrective action to file Revised Form 525s which resolved the variance set forth by Cotton & Company. Nevertheless, AT&T Mobility will conduct an additional review of its internal controls, as it already does periodically, to determine whether there are any areas for continued improvement.

In summary, AT&T Mobility strongly disagrees that it is in material non-compliance with FCC High Cost Support rules. By submitting the Revised Form 525 AT&T Mobility corrected the inaccuracies in the previous line count submissions and thus was in compliance with federal requirements. The Auditor's recommended action is already moot.

^{MR1} AT&T Mobility has a formal and robust internal ETC program with a Program Director and a number of dedicated managers responsible for ETC compliance obligations. AT&T Mobility takes compliance matters very seriously and has instituted specific controls related to the line count process and the Form 525 submission, including the following: supervisory review of the Form 525 prior to submission, including selecting a sample set of the data and verifying that the sample data matches the underlying source subscriber data information by wire center and payment mechanism; review of the Form 525 submission against the prior quarter's filing to check for data consistency and identify any potential anomalies; compare Form 525 data against internal reporting of subscriber count information; review USAC quarterly HC01 report associated with the ILEC for payment trends; review data to ensure that test lines are deleted; and, request UNE zone tables from USAC on a quarterly basis. Further, AT&T Mobility continually reviews its internal controls with the members of its ETC program team and legal counsel, and institutes changes as necessary.

^{MR2} Based on disbursements of \$26,467,688 the underpayment to AT&T Mobility was -\$32,625.

Auditor Response

In an examination of an entity's compliance with specified requirements, the practitioner's consideration of materiality differs from that of an audit of financial statements. In an examination of an entity's compliance with specified requirements, the practitioner's consideration of materiality is affected by (a) the nature of the compliance requirements, which may or may not be quantifiable in monetary terms, (b) the nature and frequency of noncompliance identified with appropriate consideration of sampling risk, and (c) qualitative considerations, including the needs and expectations of the report's users. According to USAC's guidelines for materiality on these examinations, any non-compliance which results in a monetary impact which exceeds the lesser of 5% of funds disbursed, relative to each component of the HCP, or \$100,000 is considered material. This includes both over and understated amounts. The amounts identified in our examination exceeded \$100,000.

Procedures should be designed to provide accurate reporting of lines in the original filings to preclude the necessity for multiple revisions. The materiality of the finding is indicative of significant deficiencies in the related internal control environment.

FINDING NO. HC2007BE087_F02

Condition

The Beneficiary did not advertise access to operator assistance service or advertise charges for access to operator assistance, access to emergency service, or toll limitations as required by 47 CFR § 54.101 and 47 CFR § 54.201.

Criteria

47 CFR § 54.101 outlines the following services as those supported by federal universal service support mechanisms:

1. Voice grade access to the public switched network.
2. Local usage.
3. Dual-tone multi-frequency signaling or its functional equivalent.
4. Single-party service or its functional equivalent.
5. Access to emergency services
6. Access to operator services.
7. Access to interexchange services.
8. Access to directory assistance.
9. Toll limitation for qualifying low-income consumers.

According to 47 CFR § 54.201, to be deemed an Eligible Telecommunications Carrier, a carrier must offer services supported by federal universal service support mechanisms, advertising the availability of such services and related charges using media of general distribution.

Cause

The Beneficiary did not interpret the regulation to require that each of the services and fees be specifically identified in advertisements.

Effect

The public was not made aware of the availability of these services and charges as required.

Recommendation

We recommend that the Beneficiary ensure that services and charges are advertised as required.

Management Response

Management responded as follows:

Though the audit report describes this finding as an immaterial violation of High Cost Program requirements, AT&T Mobility disagrees that 47 CFR §54.201 requires it to separately advertise operator assistance service and advertise charges for access to operator assistance, access to emergency service and toll limitations. AT&T Mobility further disagrees that "the public was not made aware of the availability of these services and charges as required." It is well known in the marketplace that these services are offered for no additional charge to the consumer and as such do not need to be listed separately in advertising. Particularly, with respect to access to emergency service, the FCC has set forth very specific requirements regarding commercial mobile radio service ("CMRS") provider's obligation to deploy access to E911. See 47 C.F.R. §20.18.

With respect to toll limitation, it is well known in the marketplace that the calling plans offered by AT&T Mobility do not require the customer to pay extra for long distance calls to anywhere in the United States, thus there is not a distinction between local and toll calls. As there is no distinction between local and toll calls within the United States, there is no such thing as toll control. AT&T Mobility's calling plan brochure, which is a form of marketing material, clearly informs the customer there are no extra charges for domestic long distance service. Further, AT&T Mobility included information on its Lifeline website and outreach materials that long distance charges were included in the Lifeline calling plan. See <http://www.wireless.att.com/about/community-support/lifeline-link-up.jsp>.

^{MR3} The calling plan brochure was previously provided to Cotton & Company.



USAC Management Response

Date: November 1, 2008

Subject: Improper Payment Information Act (IPIA) Audit of the High Cost Program of New Cingular Wireless PCS, LLC, HC-2007-087

USAC management has reviewed the IPIA Audit of New Cingular Wireless PCS, LLC ("the Carrier"), SAC 279010. The audit firm Cotton & Company LLP has issued a qualified audit report. Our response to the audit is as follows:

Finding

Condition:

The Beneficiary did not report accurate line counts on its original March 30, June 30, September 30, and December 30, 2006 and March 30, 2007 Form 525 submissions.

Management Response:

USAC High Cost management concurs with the auditor. Failure to submit accurate line count data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes that the Carrier has refiled lines for all periods and funds will be recovered accordingly. USAC further recognizes that the Carrier has addressed its internal controls related to this finding.

Comment

Condition:

The Beneficiary did not advertise access to operator assistance service or advertise charges for access to operator assistance, access to emergency service, or toll limitations as required by 47 CFR § 54.101 and 47 CFR § 54.201.

Management Response:

USAC High Cost management concurs with the auditor. The Carrier should review FCC Rule 54.201(d) and ensure that its advertisements for USF purposes are in compliance with the rule. Carrier management must advertise the availability of services supported by federal universal service support mechanisms and the charges therefore using media of general distribution. To further address Eligible Telecommunications Carrier (ETC) advertising compliance matters, USAC will conduct outreach to each jurisdiction's designating entity in efforts to ensure ETC compliance with 47 C.F.R. §54.201(d) before the jurisdiction's annual use certification filing is due to USAC & the FCC.

This concludes the USAC management response to the audit.

APPENDIX B

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**INDEPENDENT ACCOUNTANT'S REPORT
REPORT NO. HC2007BE088**

**NEW CINGULAR WIRELESS PCS, LLC
UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
HIGH COST PROGRAM SUPPORT FOR THE YEAR ENDED JUNE 30, 2007
STUDY AREA CODE NO. 289912**

**Cotton &
Company**

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**INDEPENDENT ACCOUNTANT'S REPORT
REPORT NO. HC2007BE088**

July 10, 2008

New Cingular Wireless PCS, LLC
Universal Service Administrative Company
Federal Communications Commission

We have examined New Cingular Wireless PCS, LLC (the Beneficiary) compliance relative to Study Area Code (SAC) No. 289912 with 47 CFR Part 54, Subparts C, D, J, and K of the Federal Communications Commission's (FCC) rules and related orders governing Universal Service Support for the High Cost Program (HCP) relative to \$67,886,680 of support received from the Universal Service Fund HCP during the 12-month period ending June 30, 2007. Management is responsible for the Beneficiary's compliance with these requirements. Our responsibility is to express an opinion on the Beneficiary's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the Beneficiary's compliance with specified requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Beneficiary's compliance with specified requirements.

Our examination disclosed that the Beneficiary reported inaccurate line counts on its original FCC Form 525 submissions. As a result, it received more High Cost Model (HCM) support and Interstate Access Support (IAS), than it was eligible to receive for the July 1, 2006 to June 30, 2007 disbursement period.

In our opinion, except for the material noncompliance described in the preceding paragraph, the Beneficiary complied, in all material respects, relative to SAC No. 289912 with 47 CFR Part 54, Subparts C, D, J, and K of FCC rules and related orders governing Universal Service Support for HCP relative to disbursements of \$67,886,680 for telecommunications services made from the Universal Service Fund during the 12-month period ending June 30, 2007.

In accordance with *Government Auditing Standards*, we are required to report significant deficiencies in internal control, identifying those considered to be material weaknesses, violations of provisions of contracts or grant agreements, abuse that is material to the aforementioned requirements, and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion as to whether the Beneficiary complied with the aforementioned requirements and not for the purpose of expressing an opinion on internal control over such compliance or on compliance and other matters; accordingly, we express no such opinion. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the attached Schedule of Findings.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects a Beneficiary's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement relative to the aforementioned support received that is more than inconsequential will not be prevented or detected by the Beneficiary's internal control. We consider Finding No. F01 described in the Schedule of Findings to be significant deficiency in internal control over support received.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement will not be prevented or detected by the beneficiary's internal controls.

Our consideration of internal control over support received was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that are also considered material weaknesses. We consider Finding No. F01 to be a material weakness.

We also noted an immaterial violation of HCP requirements that we have reported as Finding No. F02 in the Schedule of Findings.

This report is intended solely for the information and use of the Beneficiary, Universal Service Administrative Company (USAC), and FCC and is not intended to be and should not be used by anyone other than those specified parties, however, this report is a matter of public record.

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Operations Managing Partner

NEW CINGULAR WIRELESS PCS, LLC
REPORT NO. HC2007BE088
SCHEDULE OF FINDINGS

FINDING NO. HC2007BE088_F01

Condition

The Beneficiary did not report accurate line counts on its original March 30, June 30, September 30, and December 30, 2006 and March 30, 2007, Form 525 submissions.

Criteria

47 CFR § 54.307 states:

(a) Calculation of support. A competitive eligible telecommunications carrier shall receive universal service support to the extent that the competitive eligible telecommunications carrier captures the subscriber lines of an incumbent local exchange carrier (LEC) or serves new subscriber lines in the incumbent LEC's service area.

(b) In order to receive support pursuant to this subpart, a competitive eligible telecommunications carrier must report to the Administrator the number of working loops it serves in a service area pursuant to the schedule set forth in paragraph (c) of this section.

Cause

The Beneficiary attributed inaccurate line count compilation and reporting to various system deficiencies and errors, including:

- Errors occurring in the transfer of legacy AT&T Wireless subscribers to the Cingular Wireless billing system.
- Deficiencies in the process to filter test accounts from subscriber data.
- IT coding errors in classifying subscribers as Residential & Single Line Business and Multi Line Business.

Effect

Based on line counts reported on revised Form 525 submissions,¹ which were supported with appropriate line count detail, the Beneficiary received \$631,698 more High Cost Model (HCM) support, and \$3,704 more Interstate Access Support (IAS), than it was entitled to receive for the July 1, 2006 to June 30, 2007 disbursement period, as follows:

¹ Refers to revised Form 525 submissions for March 30, June 30, September 30, and December 30, 2006, dated May 27, 2008, and revised March 30, 2007 submission, dated July 12, 2007. The Beneficiary submitted other revised versions prior to these submissions which we did not review. USAC could not provide the information needed to calculate the disbursement adjustments already made for these submissions.

Support Type	Line Count "As Of" Date	Disbursement Quarter	Disbursements Over/(Under)
HCM	9/30/05	July-Sept 2006	\$114,576
HCM	12/31/05	Oct-Dec 2006	115,355
HCM	3/31/06	Jan-Mar 2007	245,484
HCM	6/30/06	Apr-June 2007	156,283
HCM Total			\$631,698
IAS	3/31/06	July-Sept 2006	\$16,851
IAS	6/30/06	Oct-Dec 2006	(2,216)
IAS	9/30/06	Jan-Mar 2007	(12,430)
IAS	12/31/06	Apr-June 2007	1,499
IAS Total			\$3,704

Recommendation

We recommend that the Beneficiary and USAC ensure that the revised Form 525 submissions are processed and disbursement amounts adjusted accordingly.

Management Response

Management responded as follows:

AT&T Mobility strongly disagrees with the Auditor's (Cotton & Company) conclusion that AT&T Mobility is in "material non-compliance" with the Federal Communications Commission's ("FCC") rules and related orders governing Universal Service Support for the High Cost Program. It appears that the Auditor's premise for this conclusion is due to AT&T Mobility's filing of Revised Form 525s. The conclusion is misleading and turns good public policy on its head. The conclusion fails to recognize that it was AT&T Mobility's internal controls and due diligence that self-corrected the original Form 525 line count inaccuracies. Further, the conclusion fails to take into account AT&T Mobility's compliance with the Universal Service Administrative Company ("USAC") procedures for filing corrected line counts. The current conclusion penalizes and actually discourages self reporting and corrective action by ETCs. While AT&T Mobility stipulates that it updated its original Form 525 filings, it strongly rejects the notion that these Revised Form 525 filings reflect material non-compliance with applicable rules and requirements.

Likewise, AT&T Mobility strongly disagrees with the audit finding that a subsequent filing of a Revised Form 525s for the relevant audit period means that there is a significant deficiency in AT&T Mobility's internal controls over High Cost Support received which constitutes a material weakness. The audit Finding Condition states, "[t]he Beneficiary did not report accurate line counts on its original ... Form 525 submissions." (Emphasis added.) This fact is undisputed. However, there is nothing in the FCC regulations that prohibits or makes it unlawful for an ETC to file a revised Form 525. In fact, the Form 525, which is approved by the Office of Management and Budget, has a box to check per support mechanism as to whether the filing is an "Original" or a "Revised" filing.

At the time AT&T Mobility filed its original quarterly Form 525 with USAC, AT&T Mobility reasonably believed that it had provided accurate line count information. AT&T Mobility subsequently refiled the Form 525s when it determined that the line count information on file with USAC was incorrect and instituted additional program-wide internal controls to address such

situations in future quarterly filings. For example, one of the reasons for the revised Form 525 filing was due to program-wide controls AT&T Mobility instituted in response to a 2007 USAC Support High Cost audit in the State of Mississippi for the period of October 1, 2004 through September 30, 2005. By submitting the Revised Form 525 AT&T Mobility self-corrected the historical inaccuracies in the previous line count submission and thus was in compliance with 47 C.F.R. §54.307. AT&T Mobility, therefore, believes that it has reasonably complied with all applicable FCC requirements in all material respects.

AT&T Mobility has proper controls in place to prevent any material noncompliance with FCC High Cost Support rules and specifically to prevent overstatements in the Form 525s filed with USAC.^{MR1} AT&T Mobility notes that the cumulative effect of the revised Form 525 filings for Mississippi based on the calculation performed by Cotton & Company is an overpayment of 1.20% of total disbursements for the High Cost Mechanism ("HCM") support^{MR2} and 0.08% for Interstate Access Support ("IAS") compared to disbursements made by USAC.^{MR3} AT&T Mobility does not believe these amounts rise to the level of materiality. Further, AT&T Mobility reiterates that it unilaterally took corrective action to file Revised Form 525s which resolved the variance set forth by Cotton & Company. Nevertheless, AT&T Mobility will conduct an additional review of its internal controls, as it already does periodically, to determine whether there are any areas for continued improvement.

In summary, AT&T Mobility strongly disagrees that it is in material non-compliance with FCC High Cost Support rules. By submitting the Revised Form 525 AT&T Mobility corrected the inaccuracies in the previous line count submissions and thus was in compliance with federal requirements. The Auditor's recommended action is already moot.

^{MR1} AT&T Mobility has a formal and robust internal ETC program with a Program Director and a number of dedicated managers responsible for ETC compliance obligations. AT&T Mobility takes compliance matters very seriously and has instituted specific controls related to the line count process and the Form 525 submission, including the following: supervisory review of the Form 525 prior to submission, including selecting a sample set of the data and verifying that the sample data matches the underlying source subscriber data information by wire center and payment mechanism; review of the Form 525 submission against the prior quarter's filing to check for data consistency and identify any potential anomalies; compare Form 525 data against internal reporting of subscriber count information; review USAC quarterly HC01 report associated with the ILEC for payment trends; review data to ensure that test lines are deleted; and, request UNE zone tables from USAC on a quarterly basis. Further, AT&T Mobility continually reviews its internal controls with the members of its ETC program team and legal counsel, and institutes changes as necessary.

^{MR2} Based on disbursements of \$52,771,437, the overpayment to AT&T was \$631,698.

^{MR3} Based on disbursements of \$4,619,847, the overpayment to AT&T was \$3,704.

Auditor Response

In an examination of an entity's compliance with specified requirements, the practitioner's consideration of materiality differs from that of an audit of financial statements. In an examination of an entity's compliance with specified requirements, the practitioner's consideration of materiality is affected by (a) the nature of the compliance requirements, which may or may not be quantifiable in monetary terms, (b) the nature and frequency of noncompliance identified with appropriate consideration of sampling risk, and (c) qualitative considerations, including the needs and expectations of the report's users. According to USAC's guidelines for materiality on these examinations, any non-compliance which results in a monetary impact which exceeds the lesser of 5% of funds disbursed, relative to each component of the HCP, or \$100,000 is considered material. This includes both over and understated amounts. The amounts identified in our examination exceeded \$100,000.

Procedures should be designed to provide accurate reporting of lines in the original filings to preclude the necessity for multiple revisions. The materiality of the finding is indicative of significant deficiencies in the related internal control environment.

FINDING NO. HC2007BE088_F02

Condition

The Beneficiary did not advertise access to operator assistance service or advertise charges for access to operator assistance, access to emergency service, or toll limitations as required by 47 CFR § 54.101 and 47 CFR § 54.201.

Criteria

47 CFR § 54.101 outlines the following services as those supported by federal universal service support mechanisms:

1. Voice grade access to the public switched network.
2. Local usage.
3. Dual-tone multi-frequency signaling or its functional equivalent.
4. Single-party service or its functional equivalent.
5. Access to emergency services
6. Access to operator services.
7. Access to interexchange services.
8. Access to directory assistance.
9. Toll limitation for qualifying low-income consumers.

According to 47 CFR § 54.201, to be deemed an Eligible Telecommunications Carrier, a carrier must offer services supported by federal universal service support mechanisms, advertising the availability of such services and related charges using media of general distribution.

Cause

The Beneficiary does not interpret the regulation to require that each of the services and fees be specified in advertisements.

Effect

The public was not made aware of the availability of these services and charges as required.

Recommendation

We recommend that the Beneficiary ensure that services and charges are advertised as required.

Management Response

Management responded as follows:

Though the audit report describes this finding as an immaterial violation of High Cost Program requirements, AT&T Mobility disagrees that 47 CFR §54.201 requires it to separately advertise operator assistance service and advertise charges for access to operator assistance, access to emergency service and toll limitations. AT&T Mobility further disagrees that "the public was not

made aware of the availability of these services and charges as required.” It is well known in the marketplace that these services are offered for no additional charge to the consumer and as such do not need to be listed separately in advertising. Particularly, with respect to access to emergency service, the FCC has set forth very specific requirements regarding commercial mobile radio service (“CMRS”) provider’s obligation to deploy access to E911. See 47 C.F.R. §20.18.

With respect to toll limitation, it is well known in the marketplace that the calling plans offered by AT&T Mobility do not require the customer to pay extra for long distance calls to anywhere in the United States, thus there is not a distinction between local and toll calls. As there is no distinction between local and toll calls within the United States, there is no such thing as toll control. AT&T Mobility’s calling plan brochure, which is a form of marketing material, clearly informs the customer there are no extra charges for domestic long distance service.^{MR4} Further, AT&T Mobility included information on its Lifeline website and outreach materials that long distance charges were included in the Lifeline calling plan. See <http://www.wireless.att.com/about/community-support/lifeline-link-up.jsp>.

^{MR4} The calling plan brochure was previously provided to Cotton & Company.

USAC Management Response

Date: November 1, 2008

Subject: Improper Payment Information Act (IPIA) Audit of the High Cost Program of New Cingular Wireless PCS, LLC, HC-2007-088

USAC management has reviewed the IPIA Audit of New Cingular Wireless PCS, LLC ("the Carrier"), SAC 289912. The audit firm Cotton & Company LLP has issued a qualified audit report. Our response to the audit is as follows:

Finding

Condition:

The Beneficiary did not report accurate line counts on its original March 30, June 30, September 30, 2006, and December 30, 2006 and March 30, 2007 Form 525 submissions.

Management Response:

USAC High Cost management concurs with the auditor. Failure to submit accurate line count data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC requires the Carrier to revise its filing due March 2007 with USAC within 60 days of the receipt of this letter so that support may be recalculated and payments can be corrected in a prior period adjustment by USAC. USAC recognizes that the Carrier has refiled lines for all other periods and funds will be recovered accordingly.

Comment

Condition:

The Beneficiary did not advertise access to operator assistance service or advertise charges for access to operator assistance, access to emergency service, or toll limitations as required by 47 CFR § 54.101 and 47 CFR § 54.201.

Management Response:

USAC High Cost management concurs with the auditor. The Carrier should review FCC Rule 54.201(d) and ensure that its advertisements for USF purposes are in compliance with the rule. Carrier management must advertise the availability of services supported by federal universal service support mechanisms and the charges therefore using media of general distribution.

To further address Eligible Telecommunications Carrier (ETC) advertising compliance matters, USAC will conduct outreach to each jurisdiction's designating entity in efforts to ensure ETC compliance with 47 C.F.R. §54.201(d) before the jurisdiction's annual use certification filing is due to USAC & the FCC.

This concludes the USAC management response to the audit.

APPENDIX C

PR

**INDEPENDENT ACCOUNTANT'S REPORT
REPORT NO. HC2007BE076**

**CINGULAR WIRELESS
UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
HIGH COST PROGRAM SUPPORT FOR THE YEAR ENDED JUNE 30, 2007
STUDY AREA CODE NO. 639005**

**Cotton &
Company**

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**INDEPENDENT ACCOUNTANT'S REPORT
REPORT NO. HC2007BE076**

July 10, 2008

Cingular Wireless
Universal Service Administrative Company
Federal Communications Commission

We have examined Cingular Wireless (the Beneficiary) compliance relative to Study Area Code (SAC) No. 639005 with 47 CFR Part 54, Subparts C, D, J, and K of the Federal Communications Commission's (FCC) rules and related orders governing Universal Service Support for the High Cost Program (HCP) relative to \$22,885,110 of support received from the Universal Service Fund HCP during the 12-month period ending June 30, 2007. Management is responsible for the Beneficiary's compliance with these requirements. Our responsibility is to express an opinion on the Beneficiary's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the Beneficiary's compliance with specified requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Beneficiary's compliance with specified requirements.

Our examination disclosed that the Beneficiary reported inaccurate line counts on its original FCC Form 525 submissions and received more Interstate Common Line Support (ICLS) than it was eligible to receive for the July 1, 2006 to June 30, 2007 disbursement period.

In our opinion, except for the material noncompliance described in the preceding paragraph, the Beneficiary complied, in all material respects, relative to SAC No. 639005 with 47 CFR Part 54, Subparts C, D, J, and K of FCC rules and related orders governing Universal Service Support for HCP relative to disbursements of \$22,885,110 for telecommunications services made from the Universal Service Fund during the 12-month period ending June 30, 2007.

In accordance with *Government Auditing Standards*, we are required to report significant deficiencies in internal control, identifying those considered to be material weaknesses, violations of provisions of contracts or grant agreements, abuse that is material to the aforementioned requirements, and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion as to whether the Beneficiary complied with the aforementioned requirements and not for the purpose of expressing an opinion on internal control over such compliance or on compliance and other matters; accordingly, we express no such opinion. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the attached Schedule of Findings.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects a Beneficiary's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement relative to the aforementioned support received that is more than inconsequential will not be prevented or detected by the Beneficiary's internal control. We consider Finding No. F01 described in the Schedule of Findings to be a significant deficiency in internal control over support received.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement will not be prevented or detected by the beneficiary's internal controls.

Our consideration of internal control over support received was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that are also considered material weaknesses. We consider Finding No. F01 to be a material weakness.

We also noted an immaterial violation of HCP requirements that we have reported as Finding No. F02 in the Schedule of Findings.

This report is intended solely for the information and use of the Beneficiary, Universal Service Administrative Company (USAC), and FCC and is not intended to be and should not be used by anyone other than those specified parties, however, this report is a matter of public record.

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Operations Managing Partner

**CINGULAR WIRELESS
REPORT NO. HC2007BE076
SCHEDULE OF FINDINGS**

FINDING NO. HC2007BE076_F01

Condition

The Beneficiary did not report accurate line counts on its original March 30, July 31, September 30, and December 30, 2006 Form 525 submissions.

Criteria

47 CFR § 54.307 states:

(a) Calculation of support. A competitive eligible telecommunications carrier shall receive universal service support to the extent that the competitive eligible telecommunications carrier captures the subscriber lines of an incumbent local exchange carrier (LEC) or serves new subscriber lines in the incumbent LEC's service area.

(b) In order to receive support pursuant to this subpart, a competitive eligible telecommunications carrier must report to the Administrator the number of working loops it serves in a service area pursuant to the schedule set forth in paragraph (c) of this section.

Cause

The Beneficiary attributed inaccurate line count compilation and reporting to various system deficiencies and errors, including:

- Errors occurring in the transfer of legacy AT&T Wireless subscribers to the Cingular Wireless billing system.
- Deficiencies in the process to filter test accounts from subscriber data.
- IT coding errors in classifying subscribers as Residential & Single Line Business and Multi Line Business.

Effect

Based on line counts reported on revised Form 525 submissions,¹ which were supported with appropriate line count detail, the Beneficiary received more Interstate Common Line Support (ICLS) than it was eligible to receive for the July 1, 2006 to June 30, 2007 disbursement period, as follows:

Support Type	Line Count "As Of" Date	Disbursement Quarter	Eligible Support Over/(Under)
ICLS	9/30/05	July-Sept 2006	\$133,310
ICLS	12/31/05	Oct-Dec 2006	34,585

¹ Refers to revised Form 525 submissions dated May 27, 2008 for March 30, July 31, September 30, and December 30, 2006. The Beneficiary submitted other revised versions prior to these submissions which we did not review. USAC could not provide the information needed to calculate the disbursement adjustments already made for these submissions.

Support Type	Line Count "As Of" Date	Disbursement Quarter	Eligible Support Over/(Under)
ICLS	3/31/06	Jan-Mar 2007	11,274
ICLS	6/30/06	Apr-June 2007	(30,002)
ICLS Total			\$149,167

Recommendation

We recommend that the Beneficiary and USAC ensure that revised Form 525 submissions are processed and disbursement amounts adjusted accordingly.

Management Response

Management responded as follows:

AT&T Mobility strongly disagrees with the Auditor's (Cotton & Company) conclusion that AT&T Mobility is in "material non-compliance" with the Federal Communications Commission's ("FCC") rules and related orders governing Universal Service Support for the High Cost Program. It appears that the Auditor's premise for this conclusion is due to AT&T Mobility's filing of Revised Form 525s. The conclusion is misleading and turns good public policy on its head. The conclusion fails to recognize that it was AT&T Mobility's internal controls and due diligence that self-corrected the original Form 525 line count inaccuracies. Further, the conclusion fails to take into account AT&T Mobility's compliance with the Universal Service Administrative Company ("USAC") procedures for filing corrected line counts. The current conclusion penalizes and actually discourages self reporting and corrective action by ETCs. While AT&T Mobility stipulates that it updated its original Form 525 filings, it strongly rejects the notion that these Revised Form 525 filings reflect material non-compliance with applicable rules and requirements.

Likewise, AT&T Mobility strongly disagrees with the audit finding that a subsequent filing of a Revised Form 525s for the relevant audit period means that there is a significant deficiency in AT&T Mobility's internal controls over High Cost Support received which constitutes a material weakness. The audit Finding Condition states, "[t]he Beneficiary did not report accurate line counts on its original ... Form 525 submissions." (Emphasis added.) This fact is undisputed. However, there is nothing in the FCC regulations that prohibits or makes it unlawful for an ETC to file a revised Form 525. In fact, the Form 525, which is approved by the Office of Management and Budget, has a box to check per support mechanism as to whether the filing is an "Original" or a "Revised" filing.

At the time AT&T Mobility filed its original quarterly Form 525 with USAC, AT&T Mobility reasonably believed that it had provided accurate line count information. AT&T Mobility subsequently refiled the Form 525s when it determined that the line count information on file with USAC was incorrect and instituted additional program-wide internal controls to address such situations in future quarterly filings. For example, one of the reasons for the revised Form 525 filing was due to program-wide controls AT&T Mobility instituted in response to a 2007 USAC Support High Cost audit in the State of Mississippi for the period of October 1, 2004 through September 30, 2005. By submitting the Revised Form 525 AT&T Mobility self-corrected the historical inaccuracies in the previous line count submission and thus was in compliance with 47 C.F.R. §54.307. AT&T Mobility, therefore, believes that it has reasonably complied with all applicable FCC requirements in all material respects.

AT&T Mobility has proper controls in place to prevent any material noncompliance with FCC High Cost Support rules and specifically to prevent overstatements in the Form 525s filed with USAC.^{MR1} Based on AT&T Mobility's calculation, the overpayment amount is 0.537% of total disbursements for the audit period.^{MR2} AT&T Mobility reiterates that it unilaterally took corrective action to file Revised Form 525s which resolve the variance set forth by Cotton & Company. Nevertheless, AT&T Mobility will conduct an additional review of its internal controls, as it already does periodically, to determine whether there are any areas for continued improvement.

In summary, AT&T Mobility strongly disagrees that it is in material non-compliance with FCC High Cost Support rules. By submitting the Revised Form 525 AT&T Mobility corrected the inaccuracies in the previous line count submissions and thus was in compliance with federal requirements. The Auditor's recommended action is already moot.

^{MR1} AT&T Mobility has a formal and robust internal ETC program with a Program Director and a number of dedicated managers responsible for ETC compliance obligations. AT&T Mobility takes compliance matters very seriously and has instituted specific controls related to the line count process and the Form 525 submission, including the following: supervisory review of the Form 525 prior to submission, including selecting a sample set of the data and verifying that the sample data matches the underlying source subscriber data information by wire center and payment mechanism; review of the Form 525 submission against the prior quarter's filing to check for data consistency and identify any potential anomalies; compare Form 525 data against internal reporting of subscriber count information; review USAC quarterly HC01 report associated with the ILEC for payment trends; review data to ensure that test lines are deleted; and, request UNE zone tables from USAC on a quarterly basis. Further, AT&T Mobility continually reviews its internal controls with the members of its ETC program team and legal counsel, and institutes changes as necessary.

^{MR2} Based on disbursements of \$27,776,760, the overpayment to AT&T Mobility was \$149,167.

Auditor Response

In an examination of an entity's compliance with specified requirements, the practitioner's consideration of materiality differs from that of an audit of financial statements. In an examination of an entity's compliance with specified requirements, the practitioner's consideration of materiality is affected by (a) the nature of the compliance requirements, which may or may not be quantifiable in monetary terms, (b) the nature and frequency of noncompliance identified with appropriate consideration of sampling risk, and (c) qualitative considerations, including the needs and expectations of the report's users. According to USAC's guidelines for materiality on these examinations, any non-compliance which results in a monetary impact which exceeds the lesser of 5% of funds disbursed, relative to each component of the HCP, or \$100,000 is considered material. This includes both over and understated amounts. The amounts identified in our examination exceeded \$100,000.

Procedures should be designed to provide accurate reporting of lines in the original filings to preclude the necessity for multiple revisions. The materiality of the finding is indicative of significant deficiencies in the related internal control environment.

FINDING NO. HC2007BE076_F02

Condition

The Beneficiary did not advertise access to operator assistance service or advertise charges for access to operator assistance, access to emergency service, or toll limitations as required by 47 CFR § 54.101 and 47 CFR § 54.201.

Criteria

47 CFR § 54.101 outlines the following services as those supported by federal universal service support mechanisms:

1. Voice grade access to the public switched network.
2. Local usage.
3. Dual-tone multi-frequency signaling or its functional equivalent.
4. Single-party service or its functional equivalent.
5. Access to emergency services
6. Access to operator services.
7. Access to interexchange services.
8. Access to directory assistance.
9. Toll limitation for qualifying low-income consumers.

According to 47 CFR § 54.201, to be deemed an Eligible Telecommunications Carrier, a carrier must offer services supported by federal universal service support mechanisms, advertising the availability of such services and related charges using media of general distribution.

Cause

The Beneficiary does not interpret the regulation to require that each of the services and fees be specified in advertisements.

Effect

The public was not made aware of the availability of these services and charges as required.

Recommendation

We recommend that the Beneficiary ensure that services and charges are advertised as required.

Management Response

Management responded as follows:

Though the audit report describes this finding as an immaterial violation of High Cost Program requirements, AT&T Mobility disagrees that 47 CFR §54.201 requires it to separately advertise operator assistance service and advertise charges for access to operator assistance, access to emergency service and toll limitations. AT&T Mobility further disagrees that "the public was not made aware of the availability of these services and charges as required." It is well known in the marketplace that these services are offered for no additional charge to the consumer and as such do not need to be listed separately in advertising. Particularly, with respect to access to emergency service, the FCC has set forth very specific requirements regarding commercial

mobile radio service ("CMRS") provider's obligation to deploy access to E911. See 47 C.F.R. §20.18.

With respect to toll limitation, it is well known in the marketplace that the calling plans offered by AT&T Mobility do not require the customer to pay extra for long distance calls to anywhere in the United States, thus there is not a distinction between local and toll calls. As there is no distinction between local and toll calls within the United States, there is no such thing as toll control. AT&T Mobility's calling plan brochure, which is a form of marketing material, clearly informs the customer there are no extra charges for domestic long distance service. Further, AT&T Mobility included information on its Lifeline website and outreach materials that long distance charges were included in the Lifeline calling plan.

See <http://www.wireless.att.com/about/community-support/lifeline-link-up.jsp>.

^{MR3} The calling plan brochure was previously provided to Cotton & Company.



USAC Management Response

Date: November 1, 2008

Subject: Improper Payment Information Act (IPIA) Audit of the High Cost Program of Cingular Wireless, HC-2007-076

USAC management has reviewed the IPIA Audit of Cingular Wireless ("the Carrier"), SAC 639005. The audit firm Cotton & Company LLP has issued a qualified audit report. Our response to the audit is as follows:

Finding

Condition:

The Beneficiary did not report accurate line counts on its original March 30, July 31, September 30, and December 30, 2006 Form 525 submissions.

Management Response:

USAC High Cost management concurs with the auditor. Failure to submit accurate line count data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes that the Carrier has refiled lines for all periods and funds will be recovered accordingly.

Comment

Condition:

The Beneficiary did not advertise access to operator assistance service or advertise charges for access to operator assistance, access to emergency service, or toll limitations as required by 47 CFR § 54.101 and 47 CFR § 54.201.

Management Response:

USAC High Cost management concurs with the auditor. The Carrier should review FCC Rule 54.201(d) and ensure that its advertisements for USF purposes are in compliance with the rule. Carrier management must advertise the availability of services supported by federal universal service support mechanisms and the charges therefore using media of general distribution.

To further address Eligible Telecommunications Carrier (ETC) advertising compliance matters, USAC will conduct outreach to each jurisdiction's designating entity in efforts to ensure ETC compliance with 47 C.F.R. §54.201(d) before the jurisdiction's annual use certification filing is due to USAC & the FCC.

This concludes the USAC management response to the audit.

APPENDIX D

Via Certified Mail Return Receipt Requested

February 23, 2009

RE: Federal Communications Commission (FCC) Office of the Inspector General (OIG) Universal Service Funding (USF) Audits – Appeals Process Clarification

To Whom It May Concern:

As you know, USAC sent your company its FCC OIG USF Audit. When the FCC OIG USF Audit was sent, no cover letter was included, and no instructions on appealing audit decisions were given. As is the case with any administrative decision made by USAC, you have the right to appeal the decisions presented in your audit report. This letter clarifies that your company may appeal specific audit decisions to USAC or the FCC, and the appeal must be filed within 60 days of the date of this letter. Additional information about the appeals process may be found at <http://www.usac.org/hc/about/filing-appeals.aspx>.

In the event your company is selected for a subsequent audit, audit reports will be sent with a cover letter which will include direction for filing appeals. Please consider your 60-Day Window for appealing the audit and/or findings to begin upon your receipt of the audit report and cover letter.

If you have any questions, please contact the High Cost Program at 202-776-0200 or via e-mail at hcaudits@usac.org.

Sincerely,

High Cost Program Management

APPENDIX E

March 10, 2009

J. Mike Tan
Director, Federal Regulatory
New Cingular Wireless PCS, LLC
1120 20th Street, NW
Suite 1000
Washington, DC 20036

RE: Notification to Carriers of USAC's Request for Guidance on Advertisements of Supported Services

Dear J. Mike Tan

As result of findings from IPIA Round 2, it has been brought to the attention of USAC and its Board of Directors that FCC Rule 47 CFR 54.101 is lacking specifications which are resulting in several different interpretations of the abovementioned rule. Therefore, USAC has asked for guidance from the FCC in order to clarify the specifications of the advertisement of federal universal service supported mechanisms.

The clarification will be in regards as to whether all nine supported services must be listed individually as well as their respective prices when most carriers implicitly use those nine supported services as their basic phone service. As it was commonly found that although carriers advertised their basic service which included all nine supported services, they were found non-compliant with FCC Rules due to those supported services not being listed individually and/or without their pricing therefore.

USAC High Cost Management will seek clarification from the FCC on the merit of this advertising finding. No further action is required by the Beneficiary at this time. At such time USAC receives clarification from the FCC, USAC reserves the right to take further action, if required, consistent with advertising guidance provided.

Once USAC has received guidance from the FCC, New Cingular Wireless PCS, LLC will be contacted as to what resulting follow up actions will be required of them. Please be advised this is not a request for guidance as to whether or not

advertising is required, if your company was unable to substantiate the advertising requirement, ETCs will still be held responsible and accountable for advertising universal service supported mechanisms to consumers.

If you have any questions or concerns regarding the guidance request; please address correspondence to hcaudits@usac.org.

Sincerely,

USAC

CERTIFICATE OF SERVICE

I, Otis Robison, hereby certify that on this 24th day of April 2009, I caused a copy of the foregoing Request for Review of Decision of the Universal Service Administrator by AT&T Inc. in Docket Nos. 96-45 and 05-337 to be sent via US Mail to:

Universal Service Administrative Company
Attn: David Capozzi, Acting General Counsel
2000 L Street, NW
Suite 200
Washington, DC 20036

/s/ Otis Robison