

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FCC Mail Room

In the Matter of)
Federal-State Joint Board on Universal)
Service)
Pine Belt Telephone Company, Inc.'s)
Petition for Declaratory Ruling and/or)
Waiver of the National Exchange Carrier)
Association's Requirements)

~~CC Docket No. 96-45~~
WC Docket No. 08-71

To: Wireline Competition Bureau

**PINE BELT TELEPHONE COMPANY, INC.'S PETITION FOR
DECLARATORY RULING AND/OR WAIVER OF NECA REQUIREMENTS**

COMES NOW Pine Belt Telephone Company, Inc. ("Pine Belt"), requesting a Declaratory Ruling and/or Waiver from the Federal Communications Commission ("FCC" or the "Commission") directing the National Exchange Carrier Association, Inc. ("NECA") to re-open the 24-month window that NECA has established for its members to make adjustments to cost studies submitted to NECA for the limited purposes of allowing Pine Belt to make revisions related to adjustments resulting from findings by the Universal Service Administrative Company's ("USAC") High Cost Program Management office relating to a 2007-2008 FCC Office of Inspector General ("OIG") Audit for the period July 1, 2006, through June 30, 2007. Further, Pine Belt requests that NECA be required to reimburse Pine Belt for any amounts due to it in this matter resulting from the adjustments, as set forth herein. In support of its request, Pine Belt states:

1. Pine Belt is a small, independent, family owned incumbent local exchange carrier, designated as an eligible telecommunications carrier ("ETC") by the Alabama Public Service

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Commission ("APSC"), and a member of NECA. Pine Belt serves its subscribers in Wilcox, Marengo and Clarke counties in Alabama with telephone and DSL and dial-up Internet services. Its service area is one of the most economically challenged rural areas in the United States, with current unemployment rates approaching 26% in Wilcox County, 20% in Clarke County and 15% in Marengo County, including precisely the population that needs the help that universal service funds were designed to provide. Grant of this request serves the public interest.

2. On October 1, 2009, the USAC High Cost Program Management issued a finalized report addressing the 2007-2008 FCC OIG Audit of Pine Belt and the USAC High Cost Management Response to the audit. A copy of this report is attached as Exhibit "A". The report included eight (8) findings, which resulted in a determination by USAC that High Cost support funds totaling \$45,939.00 were inappropriately distributed to Pine Belt and would be recovered by USAC. Of this amount, \$34,250 relates to Finding No. 8 of the Audit Results, which states, in part:

The portion of the Cable and Wire Facilities (CWF") asset attributable to Category 1 (voice) lines reported in the 2006-1 HCL form was incorrect. The Category 1 amount recorded in the 2006-1 HCL form totaled \$7,428,857 and should have been \$6,991,634 resulting in a difference of \$437,223. As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$34,250.

3. On October 9, 2009, USAC High Cost Management provided further notice of action to be taken resulting from High Cost Audit, a copy of which is attached as "Exhibit B". This notice informed Pine Belt that USAC would recover \$45,939.00 of High Cost support for SAC 250315 from Pine Belt's December 2009 High Cost support payment, which will be disbursed at the end of January 2010.

4. In the course of the USAC audit, USAC's contract auditors, KMPG, discovered an internal error in the formula by which Pine Belt allocated plant investment between categories 1.0 (exchange plant excluding wideband, e.g. voice) and 2.0 (exchange plant and wideband) of the 2005 cost study filed with NECA and implicated during the audit period July 1, 2006 through June 30, 2007, resulting in the improper application of \$437,223.00 between these categories to the Company's December 31, 2005 balances and an underpayment to Pine Belt of approximately \$31,000.00 through the NECA settlement process for its interstate revenue requirement. This adjustment is directly related to USAC Audit Finding No. 8. Recovery of these monies from NECA is due Pine Belt and will substantially offset the High Cost support payments to be recovered by USAC.

5. NECA asserts that its contractual relationship with its member carriers provides that all cost data submitted to NECA will be final and binding on all members after twenty-four (24) months.¹ Therefore, members may revise cost information submitted to NECA only in the immediately preceding twenty-four (24) months. This would prevent Pine Belt from making an adjustment to its 2005 cost study to reflect the USAC audit results. Under the contractual relationship between NECA and its members, the Commission has the authority to direct NECA to open this twenty-four (24)-month window. Under the circumstances presented in this petition, it is both necessary and proper for the FCC to direct NECA to open the twenty-four (24)-month window and permit Pine Belt to amend its 2005 cost study to correct the shift in investment allocations between categories 1.0 and 2.0 and collect the monies affected under the NECA settlement process.

¹ *MTS and WATS Market Structure: Average Schedule Companies*, 6 FCC Rcd 6608, n. 45 (1991).

6. Failure to permit all the revisions to the 2005 cost study would impose a hardship on Pine Belt and, and ultimately its customers. Pine Belt respectfully submits, in light of the special circumstances, and the hardship and inequity that would result if a waiver from the NECA requirements is not granted, that good cause exists to grant a waiver of the twenty-four (24) month window in order to receive the support at issue.

For these reasons, Pine Belt respectfully requests that NECA be directed to re-open its twenty-four (24)-month window to permit Pine Belt to correct the errors in its 2005 cost study and collect the monies due under NECA's settlement process for its interstate revenue requirement.

Respectfully submitted on this 1st day of December, 2009.


MARK D. WILKERSON
DANA H. BILLINGSLEY
Attorneys for Pine Belt Telephone Company, Inc.

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USAC

Universal Service Administrative Company

High Cost and Low Income Division

Certified Mail Return Receipt Requested

October 1, 2009.

RE: Results of the 2007-2008 Federal Communications Commission (FCC) Office of the Inspector General (OIG) Audit

Dear Beneficiary:

Enclosed is the finalized report from your Federal Communications Commission (FCC) Office of Inspector General (OIG) audit and the USAC High Cost Management Response to the audit. Included in the High Cost Management Response may be directives pertaining to the closure of your finding(s) and/or comments. Please complete any requested follow-up measures and send documentation of corrective actions to USAC High Cost within 60 days of receipt of this letter, if applicable.

As is the case with any administrative decision made by USAC, you have the right to appeal findings within the audit and High Cost Management Response. You may appeal to USAC or the FCC, and the appeal must be filed within 60 days of receipt of this letter. Additional information about the appeals process may be found at <http://www.usac.org/hc/about/filing-appeals.aspx>.

If you have any questions, please contact the High Cost Program at 202-776-0200 or via e-mail at hc audits@usac.org. As well, please direct all High Cost audit correspondence to either the abovementioned e-mail address or:

USAC
Attn: HC Audits
2000 L Street, NW
Suite 200
Washington, DC 20036

Sincerely,

High Cost Program Management

Enclosures: Final Audit Report





High Cost and Low Income Division

USAC Management Response

Date: August 3, 2009

Subject: Improper Payment Information Act (IPIA) Audit of the High Cost Program of PINE BELT TEL CO, HC-2007-294

USAC management has reviewed the IPIA Audit of PINE BELT TEL CO ("the Carrier"), SAC 250315. The audit firm KPMG LLP has issued an adverse opinion in its audit report. Our response to the audit is as follows.

Finding 1

Condition:

The Beneficiary did not provide documented cost studies for 2004 and 2005 showing the allocation of common costs based on direct analysis or cost-causative linkage to other cost categories to support its Part 64 allocations. As such, there is inadequate support for the cost allocation factors used to remove the portion of common expenses and assets associated with non-regulated services.

Management Response:

USAC High Cost management concurs with the auditor. The Carrier does not have documentation consistent with Part 32 rules necessary to support account data reported in its filings with the National Exchange Carrier Association (NECA) and USAC.

USAC management directs the carrier to develop and maintain supporting documentation necessary to review and reconcile with reported USF data prior to submittal of USF data, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at hcaudite@usac.org when submitting this information.)

USAC notes that the auditor did not quantify a monetary effect and did not recommend recovery of funds for this finding.

Finding 2

Condition:

The Beneficiary incorrectly reported line counts on the FCC Form 507 Interstate Common Line Support Mechanism Line Count Report and USF Data Collection Form for 2004 and 2005.

Specifically:

- a. The Beneficiary's estimated line counts of 2,676 and reported in the 2004 Form 507 should have been reported as 2,670, resulting in a difference of 6 lines. In addition, the Beneficiary's estimated line counts of 2,632 and reported in the 2005 Form 507 should have been reported as 2,627, resulting in a difference of 5 lines.
- b. The Beneficiary reported Category 1.3 loop counts of 2,670 on the 2004 HCL Data Collection Form. The amount that should have been reported is 2,652 lines, resulting in a difference of 18 lines.
- c. The Beneficiary improperly assessed Subscriber Line Charges on one Category 1.1 loop in 2005.

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.

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USAC recognizes that the Carrier committed to addressing its internal controls related to this finding, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at hcaudits@usac.org when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$1,109.

Finding 3

Condition:

The Beneficiary improperly recorded five of 45 assets selected for testing based upon Part 32 accounting rules. Specifically:

1. Work order 99-09 contained costs of \$3,250 incurred during 1999 associated with an equipment move that were improperly recorded to (Account 2232) and should have been recorded to Circuit Equipment Expense (Account 6232).
2. Work order 03-20 contained costs of \$1,017 incurred during 2005 associated with a buried cable move that were improperly recorded to Buried Cable Asset (Account 2423) and should have been recorded to Buried Cable Expense (Account 6423).
3. Expenses of \$70,799 incurred during 2000 associated with the Arlington Tower project were incorrectly recorded to Circuit Equipment (Account 2232) and should have been recorded to Poles Assets (Account 2411).
4. Work order AL-537-K, Invoice 30036 (Branley and Wilkerson) for \$90 incurred during 2003 was incorrectly recorded to Buried Cable Asset (Account 2423) however based upon the invoice description, this item appeared to be for legal representation regarding a loan associated with the work order. This invoice should have been recorded to General and Administrative (Account 6720).
5. Work order 99-01-D contained costs of \$134,828 incurred during 1999 associated with circuit equipment that were improperly recorded to Buried Cable Fiber (Account 2423.2) and should have been recorded to Circuit Equipment (Account 2232).

Management Response:

USAC High Cost management concurs with the auditor. Failure to submit accurate financial 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 committed to addressing its internal controls related to this finding, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at hcaudits@usac.org when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$9,145.

Finding 4

Condition:

The Beneficiary improperly recorded four of 45 expenses selected for testing based upon Part 32 accounting rules. Specifically:

1. An invoice in the amount of \$31 incurred during 2005 was recorded as General and Administrative (Account 6720). The expense related to freight expense and should have been recorded to the Inventory Account (Account 1220).
2. An invoice in the amount of \$5,000 incurred during 2004 was recorded as Executive Expenses (Account 6711). The expense related to consulting fees for work performed for a potential joint venture construction project and should have been recorded to General and Administrative (Account 6720).
3. An invoice from Pine Bell Wireless – Linden in the amount of \$283 incurred during 2004 was recorded as Office Equipment (Account 6123). The invoice was related to items used in the

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field to assist with communication between workers and should have been coded to Tool and Other Work Equipment (Account 6114).

4. An expense item for an American Express charge at Sparco.com in the amount of \$218 incurred during 2004 was recorded to Office Equipment (Account 6123). The charge was related to a computer peripheral (print server) and should have been recorded to General Purpose Computer Equipment (Account 6124).

Management Response:

USAC High Cost management concurs with the auditor. Failure to submit accurate financial 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 committed to addressing its internal controls related to this finding, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at hcaudits@usac.org when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$13.

Finding 5

Condition:

The Beneficiary did not provide supporting documentation for ten of 45 asset items selected for testing. The total cost of the 10 assets is \$7,842.

Management Response:

USAC High Cost management concurs with the auditor. The Carrier does not have documentation consistent with Part 32 rules necessary to support account data reported in its filings with the National Exchange Carrier Association (NECA) and USAC.

USAC management directs the carrier to maintain supporting documentation necessary to support its assets, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at hcaudits@usac.org when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$778.

Finding 5

Condition:

The Beneficiary incorrectly reported the amount of Central Office Equipment ("COE") Category 4.13 in the 2006-1 USF Data Collection Form ("HCL Form"). The Category 4.13 COE costs reported in the 2005-1 HCL Form totaled \$3,134,684 and should have been \$3,103,675 resulting in a difference of \$31,009.

Management Response:

USAC High Cost management concurs with the auditor. Failure to submit accurate financial 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 committed to addressing its internal controls related to this finding, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at hcaudits@usac.org when submitting this information.)

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As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$2,659.

Finding 7

Condition:

We noted variances in the Benefits Portion of Network Operations Expense (Account 6530) in both the 2005-1 and 2006-1 HCL Forms. The amount reported in the 2005-1 HCL Form totaled \$40,255 however it should have been reported as \$35,850, resulting in a variance of totaled \$4,405. The amount reported in 2006-1 HCL Form totaled \$24,581 however it should have been reported as \$19,764, resulting in a difference of \$4,817.

Management Response:

USAC High Cost management concurs with the auditor. Failure to submit accurate financial 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 notes that the Carrier believes it has sufficient internal controls related to this finding, and requests that the Carrier provide a detailed update of specific controls no later than 60 days after receipt of this management response. (Please send in USAC High Cost at hcaudits@usac.org when submitting this information.)

Finding 8

Condition:

The portion of the Cable and Wire Facilities ("CWF") asset attributable to Category 1 (voice) lines reported in the 2006-1 HCL form was incorrect. The Category 1 amount recorded in the 2006-1 HCL form totaled \$7,428,857 and should have been \$6,991,634 resulting in a difference of \$437,223.

Management Response:

USAC High Cost management concurs with the auditor. Failure to submit accurate financial 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 management directs the carrier to implement internal controls necessary to review and reconcile source documentation and reported USF data prior to submittal of USF data, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at hcaudits@usac.org when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$34,250.

Comment 1

Condition:

The Beneficiary's Continuing Property Records ("CPR") are not maintained in sufficient detail such that assets could be easily tied to the work orders that are used to accumulate the costs associated with the asset.

Management Response:

USAC High Cost management concurs with the audit condition. However, the Carrier did maintain such supplemental records that assets could be tied to work orders albeit not "easily" as described by the auditors.

USAC notes that the Carrier believes it has sufficient internal controls related to this finding. No further action regarding this comment is required of the Carrier.

USAC notes that the auditor found no monetary effect so there is no recovery of funds required.

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Comment 2**Condition:**

We noted an error in footnote 10 of the Beneficiary's financial statements for the years ended June 30, 2004 and June 30, 2005. Footnote 10 of the financial statements incorrectly noted, "During the years ended June 30, 2005 and 2004, the Company [Pine Belt Telephone Co.] made cash advances for operating expenses to Pine Belt Communications, Inc. in the amount of \$103,955 and \$463,041, respectively.", upon review of supporting documentation we determined that the advances occurred between Pine Belt Communication and Pine Belt Cellular and not Pine Belt Telephone Company.

Management Response:

USAC High Cost management concurs with the audit condition. However, the inaccuracy in a footnote of the Carrier's financial statement was clearly a ministerial error having no impact on the Carrier's USF disbursements. No further action regarding this comment is required of the Carrier.

USAC notes that the auditor found no monetary effect so there is no recovery of funds required.

Audit Recovery Total:

	HCL	LSS	ICLS	Finding Total
Finding 2	\$1,109	\$0	\$0	\$1,109
Finding 3	8,805	225	115	9,145
Finding 4	12	1	0	13
Finding 5	693	(12)	97	778
Finding 6	2,659	0	0	2,659
Finding 7	(2,015)	0	0	(2,015)
Finding 8	34,250	0	0	34,250
Mechanism Total	\$45,513	\$214	\$212	\$45,939

USAC reserves the right to review the audit documentation and conduct further examination into whether the Carrier complied with FCC Rules and to calculate whether recovery of any prior support is required.

This concludes the USAC management response to the audit.



By Certified Mail, Return Receipt Requested

October 9, 2009

Jean Creswell, Accounting Manager
Pine Belt Telephone Company
PO Box 279
Arlington, AL 36722

Re: Action to be Taken Resulting from High Cost Audit of Pine Belt Telephone Company
(SAC 250315) Audit Report HC-2007-294

Dear Jean Creswell:

An audit of Pine Belt Telephone Company for Study Area Code (SAC) 250315 was conducted by KPMG LLP on behalf of the Universal Service Administrative Company (USAC) and the Federal Communications Commission (FCC) Office of Inspector General (OIG) for the period July 1, 2006, through June 30, 2007. The final report from that audit was sent to the company on October 01, 2009.

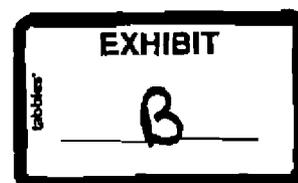
As noted in the USAC management response accompanying the final audit report sent to you, \$45,939 of High Cost support for SAC 250315 will be recovered. Please refer to the audit report for details on the funds being recovered. USAC will recover these funds from your December 2009 High Cost support payment, which will be disbursed at the end of January 2010.

Consistent with current administrative practice, if the recovery amount exceeds the company's disbursement for that month, USAC will continue to offset the remaining recovery amount balance against subsequent High Cost support disbursements until such time as the full amount is recovered. If necessary, USAC reserves the right to invoice and collect any remaining amounts owed.

As is the case with any decision of the USF administrator, you have the right to appeal this decision directly to the FCC pursuant to 47 C.F.R. § 54.719. The appeal must be filed within 60 days of the date of this letter as required by 47 C.F.R. § 54.720(a) and must conform to the filing requirements of 47 C.F.R. § 54.721. Additional information about the FCC appeals process may be found at http://www.usac.org/hc/about/filing_appeals.asp; under "OPTION B."

Sincerely,

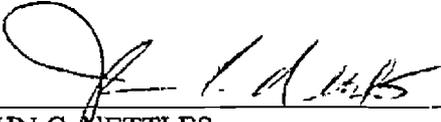
USAC High Cost Management



DECLARATION

I, John C. Nettles, President of Pine Belt Telephone Company, Inc., hereby certify that the information set forth in the attached Request for Declaratory Ruling and/or Waiver is true and correct to the best of my knowledge and belief.

Executed in Arlington, Alabama, on this 30th day of November, 2009.



JOHN C. NETTLES