

**EXHIBIT A**

**USAC AUDIT REPORT**

February 3, 2012

Judith Messenger  
PaeTec Communications, Inc.  
One PaeTec Plaza  
600 Willow Office Park  
Fairport, NY 14450

RE: Final USAC Audit Report for PaeTec Communications, Inc. (Filer ID 818024)

Dear Ms. Messenger:

Enclosed is a copy of the final audit report for PaeTec Communications, Inc. On January 31, 2012, the USAC Board of Directors (Board) approved the final audit report. The final Board-approved audit report constitutes a final decision of the Administrator for purposes of seeking review from the Federal Communications Commission (FCC) in accordance with 47 C.F.R. § 54.719(c). This letter constitutes the first formal notice to PaeTec Communications, Inc. that the final audit report has been approved by the Board.

The filing deadline for requesting FCC review of the Administrator decision is set forth in 47 C.F.R. § 54.720(a) and provides that requests for review must be filed within sixty (60) days of "issuance" of the decision from which review is sought. The date of this letter shall constitute the date of issuance of the final audit report for purposes of seeking FCC review.

Please contact me if you have any questions.

Sincerely,



Brandon Ruffley  
Internal Audit Supervisor

Cc Chang-Hua Chen, Senior Financial Analyst – Contributions (USAC)  
Tim Loken, Windstream Communications



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**CONFIDENTIAL – NOT FOR PUBLIC DISCLOSURE OR INSPECTION**  
**CONTAINS CONFIDENTIAL UNIVERSAL SERVICE FUND**  
**CONTRIBUTOR REVENUE INFORMATION**

**To:** David Case, Vice President and Chief Financial Officer

**From:** Wayne Scott, Vice President of Internal Audit

**Date:** November 21, 2011

**Re: USAC Internal Audit Division Report on the Audit of PaeTec Communications, Inc. 2009 FCC Form 499-A Rules Compliance (USAC Audit No. CR2009CP003)**

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**Introduction**

The Universal Service Administrative Company (USAC or Administrator) Internal Audit Division (IAD) audited the compliance of PaeTec Communications, Inc., Filer Identification Number 818024, (the Carrier) in completing its 2009 Telecommunications Reporting Worksheet, FCC Form 499-A, using Federal Communications Commission (FCC or Commission) rules, orders and the 2009 FCC Form 499-A Instructions. The applicable rules, orders and instructions are set forth primarily in 47 C.F.R. Part 54, as well as in other FCC rules, FCC orders, and the 2009 FCC Form 499-A Instructions (collectively, the Rules). Compliance with the Rules is the responsibility of the Carrier. IAD's responsibility is to make a determination regarding the Carrier's compliance with the Rules based on the audit.<sup>1</sup>

IAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2007 revision, as amended).<sup>2</sup> Those standards require that IAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate the Carrier's USF reporting and contribution obligations, as well as performing such other procedures as IAD considered

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<sup>1</sup> *In the Matter of Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight, et al.*, WC Docket Nos. 05-195, 02-60, 03-109, CC Docket Nos. 96-45 02-6, 97-21, Report and Order, FCC 07-150, 22 FCC Rcd 16372, 16382, ¶ 19 (2007) ("Audits are a tool for the Commission and the Administrator, as directed by the Commission, to ensure program integrity and to detect and deter waste, fraud, and abuse. Audits can reveal violations of the Act or the Commission's rules. Commission rules authorize the Administrator to conduct audits of contributors to the universal service support mechanisms.").

<sup>2</sup> 47 C.F.R. § 54.702(n) ("When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund, or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards.").

necessary to make a determination regarding the Carrier’s compliance with the Rules. The evidence obtained provides a reasonable basis for IAD’s findings and conclusions based on the audit objectives.

**Purpose, Scope and Procedures**

The primary objective of the audit was to determine the accuracy and completeness of the revenues reported by the Carrier on its 2009 FCC Form 499-A and to identify any potential misstatements that may result in a change to the Carrier’s Universal Service Fund (USF) reporting and contribution obligations for the period audited. IAD reviewed the Carrier’s 2009 FCC Form 499-A (covering the period January 1, 2008 through December 31, 2008) and performed procedures to determine whether the Carrier was compliant with the Rules.

IAD conducted audit procedures to determine whether the Carrier correctly reported revenues from all sources on its 2009 FCC Form 499-A by performing a reconciliation of the total revenues reported on the 2009 FCC Form 499-A compared to the Carrier’s income statement and billing reports. IAD also evaluated the classification of the Carrier’s revenue accounts on the different 2009 FCC Form 499-A line items for all products by reviewing descriptions of the Carrier's product offerings.

The Rules also require the Carrier to classify its revenues on the Form 499-A as intrastate, interstate, and/or international through the use of good faith estimates, safe harbor percentages, or actual revenue amounts. IAD obtained supporting documentation for the Carrier’s classification methods of these percentages or amounts to ascertain whether the Carrier was compliant with the Rules.

IAD also tested customer invoices to determine whether the Carrier was in compliance with the Rules as they relate to USF recovery charges on end-user customer invoices.

**Background**

The Carrier operates as a Competitive Local Exchange Carrier (CLEC). During the period under audit, the Carrier’s products included local business calling, toll and toll-free calling, local and long distance private line services, conference calling services, and various non-telecommunications services. The Carrier reported the following revenues on its 2009 FCC Form 499-A as subject to USF contribution assessment:

	<b>PaeTec Communications, Inc.’s 2009 FCC Form 499-A</b>	
Interstate Revenue		
International Revenue		
Total		

Below is a summary conclusion and a brief statement of the audit findings as determined by IAD. Detailed discussions of the audit findings are attached to this executive summary.

**Conclusion**

IAD concludes that the Carrier was not compliant with applicable Rules for the period reviewed, and the Carrier’s revenues were not reported in accordance with the Rules. The audit produced seven findings and one other matter as described in detail in the attachments to this executive summary.

For the purpose of this report, an audit finding (Finding) is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period. Also, for the purposes of this report, an other matter (Other Matter) is a condition for which IAD has determined to seek FCC guidance to determine whether a violation of the Rules has occurred. Additionally, IAD may report as an Other Matter instances of Form 499-A best practices and internal control weakness that impact the Form 499-A related processes. Following is a summary of the Findings and Other Matter.

**Audit Findings – Summary**

<b>Finding</b>	<b>Finding</b>	<b>Finding Description</b>	<b>Estimated Contribution Base Effect</b>
1	Block 3 and Block 4 Products and Jurisdiction	Carrier revenues were not reported on the correct Block or the correct line of the 2009 FCC Form 499-A, using the most accurate jurisdiction.	██████████
2 Non-	Telecommunications	The Carrier’s non-telecommunications revenues incorrectly included revenue from telecommunications products on its 2009 FCC Form 499-A.	██████████
3	Bad Debt	The Carrier did not report bad debt expense on its 2009 FCC Form 499-A.	██████████
4	Total Revenue	The Carrier excluded certain non-telecommunications revenue from its 2009 FCC Form 499-A.	\$0

<b>Finding</b>	<b>Finding</b>	<b>Finding Description</b>	<b>Estimated Contribution Base Effect</b>
5	Reseller USF Recovery Charges	The Carrier assessed federal USF recovery charges to reseller customers	\$0
6	Block 5 Percentages	The Carrier did not accurately report revenue in Block 5 of its 2009 FCC Form 499-A	\$0
7	D.C. Agent	The Carrier omitted certain information regarding its D.C. Agent from Block 2-B of its 2009 FCC Form 499-A	\$0
		<b>Total</b>	

**Other Matters – Summary**

Virtual Private Network. The Carrier reported Virtual Private Network (VPN) revenue of [REDACTED] on Lines 305 and 406 of the 2009 FCC Form 499-A and classified 33% of this revenue as interstate on each Line. IAD is currently seeking guidance from the FCC regarding the proper classification of this revenue. IAD reserves the right to conduct additional testing and issue additional recommendations and findings after receiving clarification from the FCC on this matter.

**Monetary Effect**

As a result of the audit findings, the estimated effect on the contribution base is an increase of [REDACTED] for the period audited. Based on this amount, USAC determines that the Carrier’s additional USF contribution obligation is [REDACTED] for the period audited.

Note: The Carrier filed a revised 2009 FCC Form 499-A in March 2010, after the audit commenced. This revision increased the Carrier’s contribution base by [REDACTED] and its USF contribution obligation by [REDACTED]. Therefore, after accounting for the increase in the contribution base resulting from the Carrier’s revision, the Carrier’s additional USF contribution obligation is [REDACTED].

**Post-Audit Activities**

Once deemed final by the USAC Board of Directors, the audit report will be provided to the Carrier. Shortly thereafter, USAC Financial Operations will notify the Carrier that it has 60 days to submit a properly certified revised 2009 FCC Form 499-A for the period audited that is consistent with the findings in the audit report. In the event the Carrier

does not submit a revised 2009 FCC Form 499-A, USAC Financial Operations will prepare a 2009 FCC Form 499-A for the Carrier based on the audit findings.

The Carrier will have 60 days from the date the final audit report is sent to the Carrier to appeal the decisions of the Administrator reflected in this audit report to the FCC pursuant to 47 C.F.R. Part 54, Subpart I.

**PaeTec Communications, Inc**  
**Filing Year 2009**  
**Detailed Audit Finding #1**  
**Block 3 and Block 4 Products & Jurisdiction**

**Criteria**

The Instructions to the 2009 FCC Form 499-A (Instructions) state:

“For the purpose of completing Block 3, a ‘reseller’ is a telecommunications carrier or telecommunications provider that: 1) incorporates purchased telecommunications services into its own telecommunications offerings; and 2) can reasonably be expected to contribute to federal universal service support mechanisms based on revenues from such offerings when provided to end users.” 2009 FCC Form 499-A Instructions, § III.C.1 at 19, ¶ 2.

“Revenues from all other sources consist primarily of revenues from services provided to end users, referred to here as ‘end-user revenues.’” 2009 FCC Form 499-A Instructions, § III.C.1 at 19, ¶ 1.

In addition, the Instructions state:

“If over ten percent of the traffic carried over a private line... is interstate, then the revenues and costs generated by the entire line are classified as interstate.” 2009 FCC Form 499-A Instructions, § III.C.3 at 22, ¶ 1 (*Instructions for private line traffic*).

“Line 303 and Line 404 – Monthly service, local calling including message and local toll charges, connection charges, vertical features, and other local exchange services should include the basic local service revenues....Line 303 and Line 404 should include charges for optional extended area service, dialing features, local directory assistance, added exchange services such as automatic number identification (ANI) or teleconferencing, LNP surcharges, connection charges, charges for connecting with mobile service and local exchange revenue settlements.” 2009 FCC Form 499-A Instructions, § III.C.4 at 25, ¶ 2 (*Instructions for Line 303 and Line 304*).

“Local service provided *via* interconnected VoIP service revenues should be reported in Lines 404.4 or 404.5 depending on whether the revenues are earned from interconnected VoIP service offered in conjunction with a broadband connection (Line 404.4) or independent of the broadband connection (Lines 404.5).” 2009 FCC Form 499-A Instructions, § III.C.4 at 25, ¶ 4 (emphasis in original) (*Instructions for reporting interconnected VoIP*).

“Line 305 and Line 406 –...Report on Lines 305 and 406 revenues from offering dedicated capacity between specified points even if the service is provided over local area switched MPLS, ATM, or frame relay networks.” 2009 FCC Form 499-A Instructions, § III.C.4 at 26, ¶ 3 (*Instructions for Line 305 and Line 406*).

“Line 307 should include charges for physical collocation of equipment....” 2009 FCC Form 499-A Instructions, § III.C.4 at 27, ¶ 1 (*Instructions for Line 307*).

“Line 310 and Line 413 – Operator and toll cards with alternative billing arrangements should include all calling card or credit card calls, person-to-person calls, and calls with alternative billing arrangements such as third-number billing, collect calls, and country-direct type calls that either originate or terminate in a U.S. point. These lines should include all charges from toll or long distance directory assistance.” 2009 FCC Form 499-A Instructions, § III.C.4 at 28, ¶ 3 (*Instructions for Line 310 and Line 413*).

“Line 311 and Lines 414.1 and Line 414.2 – Ordinary long distance and other switched toll services should include amounts from account 5100 – long distance message revenues – except for amounts reported on Lines 310, 407, 411, 412 or 413. Line 311 and Line 414.1 and Line 414.2 should include ordinary message telephone service (MTS), WATS, subscriber toll-free, 900, ‘WATS-like,’ and similar switched services. This category includes most toll calls placed for a fee and should include flat monthly charges billed to customers, such as account maintenance charges, PICC pass-through charges, and monthly minimums. Ordinary long distance includes separately stated toll revenue from wireline, wireless and interconnected VoIP services.” 2009 FCC Form 499-A Instructions, § III.C.4 at 28, ¶ 4 (*Instructions for Line 311 and Lines 414.1 and Line 414.2*).

“Line 314 and Line 417 – All other long distance services should include all other revenues from providing long distance communications services....Line 314 and Line 417 should include switched data, frame relay and similar services where the customer is provided a toll network service rather than dedicated capacity between two points.” 2009 FCC Form 499-A Instructions, § III.C.4 at 29, ¶ 1 (*Instructions for Line 314 and 417*).

“Line 418 –...Line 418 should include all non-telecommunications service revenues on the reporting entity's books....Line 418 should include revenues from the sale, lease, installation, maintenance, or insurance of customer premises equipment (CPE)....Use Line 418.3 to report all other revenues properly reported on line 418.” 2009 FCC Form 499-A

Instructions, § III.C.4 at 29, ¶¶ 3, 4 (*Instructions for Line 418*).

### **Condition**

The Carrier reported revenues of [REDACTED] on Block 3 of the 2009 FCC Form 499-A. Of this total, [REDACTED] represents Carrier Access Billing System (CABS) revenues. Per the Carrier, as stated in an e-mail sent to IAD on March 15, 2010,<sup>3</sup> the remainder of the revenue, [REDACTED] represents revenue from wholesale customers.

At the beginning of the audit, IAD requested that the Carrier complete IAD's Template C, "Reseller Listing," which details each service the Carrier sells to a reseller and the associated revenue. IAD received a completed Template C from the Carrier on January 19, 2010, reporting total revenue of [REDACTED]. The total revenue reported on the Template C did not equal the [REDACTED] of wholesale customer revenue reported on the Carrier's 2009 FCC Form 499-A because the Carrier mistakenly reported all wholesale revenue, including reseller and end-user revenue, on Block 3 of the 2009 FCC Form 499-A, instead of reporting only revenue from exempt resellers per the Instructions.

IAD obtained an understanding of how the Carrier's Template C was prepared and learned that the Carrier's reseller list was assembled by querying its billing system to identify all revenue associated with customers who had a USF exemption designation in the billing system. To determine the amount that should be reported on Block 3 of the Carrier's 2009 FCC Form 499-A for the exempt resellers, [REDACTED] IAD removed revenue, primarily non-telecommunications revenue associated with the exempt resellers, that was already being tested for Block 4.

IAD determined that Block 3 and Block 4 products should be tested by first classifying the total general ledger (G/L) amounts reported on Block 4 of the FCC Form 499-A. Jurisdiction for each product was also evaluated during this process. Following completion of the Block 4 classifications, IAD classified the reseller revenue reported on Block 3 by applying the same product and jurisdiction treatment it applied to the products during Block 4 testing. IAD then concluded its testing by subtracting the Block 3 revenue from the total G/L revenue to arrive at the final Block 4 end-user revenues to be reported on Block 4 of the Carrier's 2009 FCC Form 499-A.

### **Block 4**

IAD evaluated the product descriptions for each product reported on Block 4 of the Carrier's 2009 FCC Form 499-A to ensure that the total amount was classified on the correct line of the form. During testing, IAD noted exceptions as follows:

#### **Collocation**

The Carrier reported revenue associated with Co-location Rent (G/L 503730) on Line 404.3. Revenue of [REDACTED] was reclassified to Line 307. IAD evaluated the nature of the product and agreed with the 100% intrastate jurisdiction reported by the Carrier on the 2009 FCC Form 499-A (*see above: Instructions for Line 307*).

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<sup>3</sup> E-mail from Maggie Hayes, Manager of Regulatory Affairs, PaeTec Communications, Inc. to Brandon Ruffley, Staff Internal Auditor, USAC (Mar. 15, 2010).

Local Directory Assistance

The Carrier reported revenue associated with Local Directory Assistance (G/L 503935) on Line 408. Revenue of [REDACTED] was reclassified to Line 404.3. IAD evaluated the nature of the product and agreed with the 100% intrastate jurisdiction reported on the 2009 FCC Form 499-A (see above: *Instructions for Line 303 and Line 404*).

Remote Call Forwarding

The Carrier reported revenue associated with Remote Call Forwarding (G/L 501270a) on Line 414.1. IAD reviewed billing system details and determined that the majority of this product represents a vertical feature related to local calling. Therefore, revenue of [REDACTED] was reclassified to Line 404.3. IAD reviewed the Carrier's support and determined the [REDACTED] of interstate revenue reported on the 2009 FCC Form 499-A was reasonable (see above: *Instructions for Line 303 and Line 404*).

Voice over Internet Protocol (VoIP) Charges

The Carrier reported revenue associated with VoIP (G/L 508106) on Line 406. Revenue of [REDACTED] was reclassified to Line 404.5. The Carrier reported VoIP jurisdiction by applying the safe-harbor, thus, IAD agreed with the 64.9% interstate jurisdiction reported on the 2009 FCC Form 499-A (see above: *Instructions for reporting interconnected VoIP*).

Inter Office Data Frame Relay

The Carrier reported revenue associated with Inter Office Data Frame Relay (G/L 503555) on Line 404.3. Revenue of [REDACTED] was reclassified to Line 406. IAD evaluated the nature of the product and agreed with the 100% interstate jurisdiction reported on the 2009 FCC Form 499-A (see above: *Instructions for Line 305 and Line 406*).

Private Line Revenues

The Carrier reported revenue associated with Point to Point Monthly Recurring Charges (MRC) (G/L 503568) on Line 406. Revenue associated with this account totaled [REDACTED] and was classified as 100% intrastate. The Carrier informed IAD that customer certifications are maintained to support the jurisdiction reported on the FCC Form 499-A. These certifications state that the amount of interstate traffic routed over the private line circuit leased from the Carrier represents less than 10% of the total traffic routed over the private line circuit.

In order to test the private line jurisdiction, IAD obtained a list of the Carrier's customers that were receiving private line service. IAD identified the largest revenue customers and selected the 100 highest for testing. The revenue associated with these 100 customers was [REDACTED] or 32.79%, of the total account revenue. On April 28, 2011, IAD requested the customer certifications associated with each of the 100 customers in the testing sample. On August 15, 2011, IAD completed the testing of private line as the Carrier confirmed that, of the 100 certifications requested, only 34 were available. Revenue associated with the remaining 66 customers, for whom no certifications were

provided, was [REDACTED], which represented 67.36% of the total revenue in the sample. IAD applied an interstate jurisdiction of 67.36% to total account revenue of [REDACTED] to arrive at interstate revenue of [REDACTED] (see above: *Instructions for private line traffic*).

The Carrier reported a credit associated with the Point to Point MRC Credit (G/L 505728) on Line 404.3. This credit of [REDACTED] was reclassified to the same line as the service with which it is associated, Point to Point MRC (G/L 503568), on Line 406. In order to allocate private line interstate jurisdiction, IAD applied the private line interstate jurisdiction of 67.36%, or negative [REDACTED] (see above: *Instructions for Line 305 and Line 406 and Instructions for private line traffic*).

IAD noted that the Carrier reported VPN revenue of [REDACTED] on its 2009 FCC Form 499-A.<sup>4</sup> The Carrier reported [REDACTED] on Line 305, of which 33%, or [REDACTED] was determined to be interstate revenue. The Carrier reported [REDACTED] 9 on Line 406, of which 33%, or [REDACTED] 1, was determined to be interstate revenue. The Carrier provided IAD with a list of exempt resellers and associated revenues. Using this information, IAD identified the following:

- [REDACTED] of VPN revenue was associated with exempt resellers. IAD maintained the reported line, Line 305, as well as the 33% interstate jurisdiction, or [REDACTED]
- [REDACTED] of VPN revenue was associated with end-users. IAD maintained the reported line, Line 406, as well as the 33% interstate jurisdiction, or [REDACTED] 3.

#### Calling Cards and Long Distance Directory Assistance

The Carrier reported revenue associated with Calling Cards (G/L 501010) on Line 417. Revenue of [REDACTED] was reclassified to Line 413. IAD evaluated the nature of the product and agreed with the [REDACTED] of interstate revenue reported on the 2009 FCC Form 499-A (see above: *Instructions for Line 310 and Line 413*).

The Carrier reported revenue associated with Long Distance Directory Assistance (G/L 508202) on Line 417. Revenue of [REDACTED] was reclassified to Line 413. IAD evaluated the nature of the product and agreed with the 100% interstate jurisdiction reported on the 2009 FCC Form 499-A (see above: *Instructions for Line 310 and Line 413*).

#### Toll & Toll Free Calling

The Carrier reported revenue associated with Dedicated Toll and Toll Free products (G/L 500830, 500860, and 500655) on Line 406. In addition, the Carrier reported revenue associated with Dedicated Toll and Toll Free products (G/L 500810, 500820, 500840, 500850, and 500870) on Line 415. IAD discussed the product with the Carrier, and the Carrier stated that “dedicated” means a call going from a customer’s premises directly to the Carrier’s switch, bypassing another carrier’s switch in the process. The Carrier bills customers according to usage. Therefore, revenue of [REDACTED] was reclassified from Line 406 to Line 414.1. Revenue of [REDACTED] was reclassified from Line 415 to Line 414.1. IAD reviewed the Carrier’s support and determined that the [REDACTED] of interstate revenue and [REDACTED] of international revenue reported on the 2009 FCC

<sup>4</sup> IAD reports the audited amounts for VPN revenue in an Other Matter.

Form 499-A was accurately stated (*see above: Instructions for Line 311 and Lines 414.1 and Line 414.2*).

#### Conference Calling

The Carrier reported revenue of [REDACTED] associated with Conference Calling (G/L 501012) on Line 417 as 100% intrastate. During the course of the audit, IAD was informed that, for Conference Calling, the Carrier's billing system was unable to provide a breakout between intrastate and interstate jurisdiction. In order to derive a reasonable estimate for the Carrier's Conference Calling jurisdiction, IAD requested the jurisdiction currently applied to the 2011 FCC Form 499-A filing. The Carrier informed IAD that this product is now reported as 4% intrastate and 96% interstate. IAD accepted the Carrier's revised estimate of 96% interstate and applied this jurisdiction to arrive at a Conference Calling interstate revenue amount of [REDACTED].

#### Expedite Charges and Commitment Billing Usage

The Carrier reported revenue associated with Expedite Charges (G/L 503934) on Line 404.3. Expedite charges represent a charge for rushing installation of various products. Revenue of [REDACTED] was reclassified to Line 417, other long distance, since this revenue relates not only to local products, but to all products offered by the Carrier. In addition, the Carrier reported this revenue as 100% intrastate. Since this revenue relates to all products, IAD applied the overall audited jurisdiction from Block 3 and Block 4 products and jurisdiction testing, totaling 36.20% interstate and 3.71% international, or [REDACTED] and [REDACTED], respectively (*see above: Instructions for Line 314 and Line 417*).

The Carrier reported revenue associated with Commitment Billing (G/L 501011) on Line 414.1. Commitment billing charges represent a fee assessed to the customer in the event the customer does not consume a certain level of usage for the period. Revenue of [REDACTED] was reclassified to Line 417, other long distance, since IAD was informed this fee may relate to a variety of products offered by the Carrier. In addition, the Carrier reported this revenue as 35% interstate, or [REDACTED], by applying an estimate for which no support was readily available. Since this revenue relates to all products, IAD applied the overall audited jurisdiction from Block 3 and Block 4 products and jurisdiction testing, totaling 36.20% interstate and 3.71% international, or [REDACTED] and [REDACTED] respectively (*see above: Instructions for Line 314 and Line 417*).

#### Non-Telecommunications Reported as Telecommunications

The Carrier reported revenue related to Permanent Announcements (G/L 503526) on Line 404.3. This service, which is considered a non-telecommunications service, provides an automated announcement to callers to inform them that, for example, a number has been disconnected. Thus, revenue of [REDACTED] was reclassified to Line 418.3 (*see above: Instructions for Line 418*).

The Carrier reported revenue associated with Customer Premise Equipment (CPE) (G/L 503750, 503742, and 504740) on Line 404.3. CPE revenues, totaling negative [REDACTED] were reclassified to Line 418.3 (*see above: Instructions for Line 418*).

The Carrier reported revenue associated with Voice Mail (G/L 504725) on Line 404.3. Revenue of [REDACTED] was reclassified to Line 418.3 (*see above: Instructions for Line 418*).

The Carrier reported revenue associated with Equipment Rental Income (G/L 508206) on Line 404.3. Revenue of [REDACTED] was reclassified to Line 418.3 (*see above: Instructions for Line 418*).

The Carrier reported revenue associated with Fraud Management Services (G/L 501223 and 501401) on Line 414.1. This service monitors a customer's traffic to help identify fraud as soon as possible. Revenue of [REDACTED] was reclassified to Line 418.3 (*see above: Instructions for Line 418*).

### **Block 3**

IAD evaluated the product descriptions for the services included on the Carrier's Template C, "Reseller Listing." Of the [REDACTED] representing telecommunications revenue associated with exempt resellers, IAD determined the following based on the Carrier's Template C:

- Revenue from local calling services was [REDACTED] of which [REDACTED] was interstate. This revenue was classified on Line 303.2.
- Revenue from local private line services and VPN was [REDACTED]. This revenue includes [REDACTED] of private line revenue, which IAD determined was 67.36%, or [REDACTED], interstate. Also, VPN revenue of [REDACTED] was identified, as described in the "Private Line Revenues" section above, for which IAD maintained an interstate jurisdiction of 33%, or [REDACTED]. This revenue was classified on Line 305.1.
- Revenue from Interconnected VoIP charges was [REDACTED], of which [REDACTED] was interstate. This revenue was classified on Line 305.2.
- Revenue from long distance directory assistance and alternative billing arrangements was [REDACTED], of which [REDACTED] was interstate. This revenue was classified on Line 310.
- Revenue from long distance services was [REDACTED], of which [REDACTED] was interstate and [REDACTED] was international. This revenue was classified on Line 311.
- Revenue from conference calling, as well as revenue for expedite charges and commitment billing usage, was [REDACTED]. Conference calling revenue of [REDACTED] was determined to be 96%, or [REDACTED], interstate. Expedite charges and commitment billing revenue of [REDACTED] was determined to be 36.20% interstate and 3.71% international, or [REDACTED] and [REDACTED], respectively. This revenue was classified on Line 314.

### **Cause**

The Carrier was unaware of the proper FCC Form 499-A reporting requirements for its telecommunications and non-telecommunications revenues.

**Effect**

The audited Block 3 and Block 4 2009 FCC Form 499-A lines are provided below:

2009 Form 499-A Line	Total Amount Reported	Interstate Amount Reported	International Amount Reported	Total Amount Audited	Interstate Amount Audited	International Amount Audited	Potential Effect on Contribution Base
303.2							
304.1							
305.1							
305.2							
307							
310							
311							
312							
314							
403							
404.3							
404.5							
405							
406							
408							
413							
414.1							
415							
417							
418.3							
<b>Total Potential Effect on Contribution Base</b>							

**Recommendation**

IAD recommends that the Carrier obtain a better understanding of the FCC Form 499-A revenue reporting Instructions. The Carrier should re-file its 2009 FCC Form 499-A to accurately report its telecommunications and non-telecommunications revenues. Any filings where similar misclassifications may have occurred should also be re-filed and the revenue reported on the appropriate line item(s) of the applicable FCC Form(s) 499-A.

**Carrier's Response**

Block 4

Collocation

PAETEC has no disagreement with the reclassification.

Local Directory Assistance

PAETEC has no disagreement with the reclassification.

Remote Call Forwarding

PAETEC has no disagreement with the reclassification.

Voice over Internet Protocol (VoIP) Charges

PAETEC has no disagreement with the reclassification.

Inter Office Data Frame Relay

PAETEC has no disagreement with the reclassification.

Private Line Revenues

PAETEC agrees that it did not provide 100% of the certifications as requested, but disagrees with the inferences made by USAC as a result of this lack of data. Based on PAETEC's review of available data, PAETEC believes the appropriate ratio of interstate revenue is 58% intrastate, and 42% interstate, and will use this number in subsequent re-filings relating to this audit. This number is derived from reviewing current customer data and certifications received from customers certifying their percentage of interstate traffic. Copies of these certifications will be provided with the revision filing or upon request. These filings contain a sample of approximately 80% of current customers, and thus is a statistically significant sample. Using current year certifications as a proxy for the audit period is appropriate and that methodology has been previously accepted by USAC. The audit itself does this same method in the determination of the appropriate jurisdiction for the conference calling service. So, similarly, it is appropriate to use the current year information for private line revenue as well. Thus, using these current customers as a proxy for the audit period, a rate of 58% intrastate shall be applied.

Moreover, USAC's basic assumption, that a private line without a certification attesting to its intrastate nature is presumed to be interstate is, quite simply, wrong. By applying this incorrect standard, USAC is ostensibly reversing existing FCC precedent. The FCC, in its historic jurisdictional treatment of private lines confirms the error of USAC's position. Prior to 1989, "the cost of special access lines carrying both state and interstate traffic [was] generally assigned to the interstate jurisdiction."<sup>5</sup> The problem with this approach,

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<sup>5</sup> *MTS and WATS Market Structure, Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board*, CC Dockets Nos. 78-72 and 80-286, Recommended Decision and Order, 4 FCC Rcd 1352 (1989), at ¶ 1 (emphasis added).

according to a Joint Board appointed to study the issue, was that it “tended to deprive state regulators of authority over largely intrastate private line systems carrying only small amounts of interstate traffic.”<sup>6</sup> The Joint Board recommended that the Commission adopt separations procedures for private lines -- specifically that such lines be allocated to the interstate jurisdiction only “through customer certification that each special access line carries *more than a de minimis amount of interstate traffic.*”<sup>7</sup> This approach was consistent with the FCC’s long-standing approach of presuming jurisdiction belonged to the state Commissions. Since the only certification mentioned by the Joint Board was to validate whether the line carried *more than* a certain amount of *interstate* traffic, and since the problem the Joint Board sought to solve was excessive interstate allocation, it stood that absent certification of interstate use, the line should be considered *intrastate*.

#### Calling Cards and Long Distance Directory Assistance

PAETEC has no disagreement with the reclassification.

#### Toll & Toll Free Calling

PAETEC has no disagreement with the reclassification.

#### Conference Calling

Although conference calling included a series of sub-charges, some of which would be categorized as non-telecommunications, the majority of revenue was for conference calling itself. PAETEC believes that a percentage similar to that applied to Expedite charges and commitment billing usage which uses the overall audited jurisdiction from Block 3 and Block 4 products and jurisdiction testing at 36.20% interstate and 3.71% international is not unreasonable.

#### Expedite Charges and Commitment Billing Usage

PAETEC has no disagreement with the reclassification.

#### Non-Telecommunications Reported as Telecommunications

PAETEC has no disagreement with the reclassification, although PAETEC notes that USAC’s own conclusion indicates that carriers have to interpolate the instructions and apply “reasonable judgment” in the determination of the appropriate reporting. As such, PAETEC would submit that the instructions could be clearer.

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<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at 1357, ¶ 32 (emphasis added).

*Block Three*

As this finding has no impact on the contribution, PAETEC's objection is minimal, in that this finding also contains the incorrect private line conclusions as noted above. PAETEC will recalculate and revise for its refilling.

**USAC IAD Response***Private Line Revenues*

*USAC's Audited Percentages Offer a Reasonable Conclusion for Private Line Reporting.* As discussed in the condition, IAD was informed that customer certifications were used to determine the traffic carried over the Carrier's private lines, as reported on its 2009 FCC Form 499-A. On April 28, 2011, IAD requested the certifications associated with the Carrier's customers whose revenues comprised the largest total revenue amounts for private line. A total of 100 customers from calendar year 2008 were identified, with associated private line revenues totaling [REDACTED], or 32.79%, of the [REDACTED] in total private line revenue. The Carrier provided certifications for only 34 of the 100 customers identified. IAD notes that the majority of the certifications provided to support the private line jurisdictions reported on the Carrier's 2009 FCC Form 499-A were executed in 2011.<sup>8</sup> Revenue associated with the remaining 66 customers, for whom no certifications were provided, totaled [REDACTED], or 67.36%, of the total revenue in the sample. On November 28, 2011, upon receipt of the Carrier's response, IAD again requested any additional certifications the Carrier had available for the 66 customers for whom no certifications were provided during the course of the audit fieldwork. On November 29, 2011, the Carrier confirmed via e-mail that no additional certifications were available.<sup>9</sup>

In its response, the Carrier disagreed with the 67.36% interstate percentage calculated by IAD during the audit of the Carrier's 2009 FCC Form 499-A. Instead, the Carrier asserts that its currently available data should be used to calculate a traffic allocation of 58% intrastate and 42% interstate. Specifically, the Carrier derives these percentages using its customer data and certifications for calendar year 2011. The Carrier recommends that IAD utilize current year information to calculate the Carrier's private line traffic in the same way IAD utilized current year information to calculate the Carrier's conference calling traffic, however, private line traffic is based on a specific customer's use of the private line circuit and such usage may differ from customer-to-customer. Moreover, if more than 10% of the Carrier's private line traffic is interstate, then all of the Carrier's revenue associated with the private line circuit must be reported as interstate revenue.<sup>10</sup> In a discussion with the Carrier regarding its private line revenue, the Carrier informed IAD that it could not produce certifications for many of the 100 customers in IAD's 2008 private line sample because the customers no longer obtain private line services from the

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<sup>8</sup> Only nine of the 34 certifications provided to USAC were executed in 2008. The remaining 25 certifications were executed between May and August of 2011.

<sup>9</sup> E-mail from Maggie Hayes, Manager of Regulatory Affairs, PaeTec Communications, Inc. to Brandon Ruffley, Internal Audit Supervisor, USAC (Nov. 29, 2011).

<sup>10</sup> 2009 FCC Form 499-A Instructions, §III.C.3 at 22, ¶ 1.

Carrier. Therefore, to assess whether the Carrier's private line customer base significantly changed between 2008 and 2011, IAD requested a list of the Carrier's 2011 private line customers. On November 29, 2011, the Carrier provided USAC with a list of its private line customers as of September 30, 2011.<sup>11</sup> IAD reviewed the 2011 customer list to determine whether the 100 customers from the 2008 sample are still active customers of the Carrier. IAD reviewed the 2011 customer list using both the customers' Billable ID numbers and the customers' names. Based on those reviews, IAD concluded that, of the 100 customers included in the 2008 private line sample, only 47 customers still receive private line service from the Carrier in 2011. By asserting that its private line customer information from 2011 is an accurate representation of its 2008 private line customer information, the Carrier is basing its analysis on a private line customer base and private line circuits that may be substantially different from the Carrier's private line circuits in 2008. Because the Carrier could not obtain documentation during the audit demonstrating that its private line circuits carried less than ten percent interstate traffic for the 2008 calendar year, the most reasonable approach is to classify the Carrier's private line revenue using the 67.36% interstate jurisdiction calculated by IAD.

*The Carrier's Intrastate Presumption is Not Supported by the FCC's Rules.* In its response, the Carrier argues that, "[s]ince the only certification mentioned by the Joint Board was to validate whether the line carried *more than* a certain amount of *interstate* traffic, and since the problem the Joint Board sought to solve was excessive interstate allocation, it stood that absent certification of interstate use, the line should be considered *intrastate*."<sup>12</sup> IAD agrees that the Joint Board's recommendation was aimed at solving excessive interstate allocation, but disagrees that the Joint Board replaced the direct assignment of private line circuits to an interstate jurisdiction with the direct assignment of private line circuits to an intrastate jurisdiction. Rather, the jurisdiction of special access circuits is to be determined based on the type of traffic carried over the circuit.<sup>13</sup> Specifically, the Joint Board recommended a move away from separations rules that assumed special access lines were used exclusively for either state *or* interstate traffic, in favor of a separations process that "directly assign[s] the cost of [mixed use special access lines] to the state jurisdiction when such lines carry de minimis amounts of interstate traffic in addition to intrastate traffic."<sup>14</sup> In so doing, the Joint Board further recommended that, "interstate traffic on a special access line...be deemed de minimis for separations purposes when it amounts to ten percent or less of the total traffic on the line."<sup>15</sup> The Joint Board's recommendations were subsequently adopted by the Commission.<sup>16</sup>

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<sup>11</sup> E-mail from Maggie Hayes, Manager of Regulatory Affairs, PaeTec Communications, Inc. to Brandon Ruffley, Internal Audit Supervisor, USAC (Nov. 29, 2011).

<sup>12</sup> Carrier Response, *supra*, at 15 (emphasis in original).

<sup>13</sup> *In the Matter of MTS and WATS Market Structure Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board*, CC Docket Nos. 78-72, 80-286, Recommended Decision and Order, FCC 89J-I, 4 FCC Rcd 1352, 1352, ¶ 1 (1989) (*Recommended 10% Order*).

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 1352, ¶ 30.

<sup>16</sup> *See generally*, *In the Matter of MTS and WATS Market Structure Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board*, CC Docket Nos. 78-72, 80-286, Decision and Order, FCC 89-224, 4 FCC Rcd 5660 (1989) (*Final 10% Order*).

FCC Rule 36.154 also indicates that the type of traffic carried across a private line circuit is used to determine whether a private line circuit should be classified as a “state private line” or an “interstate private line.”<sup>17</sup> After the adoption of the Joint Board’s recommendations in the *Final 10% Order*, this rule, known as the “10% Rule,” was included in the FCC Form 499-A Instructions and has remained a part of the FCC Form 499-A Instructions ever since. Accordingly, the Instructions corresponding to the Carrier’s 2009 FCC Form 499-A state that if over 10% of the traffic carried over a private line is interstate, the revenues associated with the entire private line are to be classified as interstate.<sup>18</sup>

In order to evaluate the traffic carried over a private line to determine whether the traffic is governed by the “10% Rule,” the Joint Board concluded that the direct assignment method (between intrastate and interstate), “can be best achieved through customer certification that each special access line carries more than a de minimis amount of interstate traffic.”<sup>19</sup> According to the Joint Board, “customers should be able to develop sufficiently accurate certifications based on information concerning system configuration and the nature of their communication needs.”<sup>20</sup> The FCC accepted the Joint Board’s reasoning, determining that customer certifications attesting to the nature of the traffic carried over a private line would be the best method for assigning jurisdiction.<sup>21</sup> Thus, in order for the Carrier to ensure compliance with the Instructions, FCC Rule 36.154 and FCC orders, the Carrier must evaluate the traffic on its private lines, whether through a traffic study, customer certifications, or other means. The Joint Board’s recommendation does not permit a carrier to assume intrastate jurisdiction of its private lines.

*Customers Lack of Response May Indicate an Interstate Private Line*

The Carrier’s assertion that IAD should rely on the current customer data and certifications to determine the jurisdiction of the Carrier’s private line circuits fails to consider that the reason the Carrier may not have been able to obtain certifications from many of the 100 customers in IAD’s private line sample is not because the customers no longer obtain private line services from the Carrier but, rather, because the customers’ traffic is interstate, not intrastate, in nature. Notably, the certification sent by the Carrier to its customers in 2008, and also to its customers and former customers in 2011, asks the customers to certify that, “the amount of interstate traffic routed over the private line circuit(s) listed on the attached list that is (are) leased from PAETEC represents less than 10% of the total traffic routed over the private line circuit(s).” Thus, it is reasonable to assume, based on the Carrier’s certification language, that those customers whose

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<sup>17</sup> See 47 C.F.R. § 36.154 (explaining that state private lines “include all private lines...carrying exclusively state traffic as well as private lines...carrying both state and interstate traffic if the interstate traffic on the line involved constitutes ten percent or less of the total traffic on the line” and interstate private lines “include all private lines...that carry exclusively interstate traffic as well as private lines...carrying both state and interstate traffic if the interstate traffic on the line involved constitutes more than ten percent of the total traffic on the line”).

<sup>18</sup> Instructions, §III.C.3 at 22, ¶ 1.

<sup>19</sup> *Recommended 10% Order*, 4 FCC 1352, 1357, ¶ 32.

<sup>20</sup> *Id.* at n.137.

<sup>21</sup> *Final 10% Order*, 4 FCC Rcd 5660-61, ¶¶ 3, 7.

interstate traffic actually exceeded 10%, would not feel compelled to respond to the Carrier's certification request.

### Conference Calling

During product testing, IAD applied the Carrier's own 2009 FCC Form 499-A preparation methodology to map products to the form. The Carrier did not provide sufficient detail regarding its conference calling revenues for IAD to separate the telecommunications and non-telecommunications revenues. No additional details were provided as part of the Carrier's response to this report. For future filings, if such information is available, the Carrier should separate its telecommunications and non-telecommunications revenues to allow for accurate reporting on its FCC Form 499-A.

IAD does not concur with the Carrier's suggestion to adopt the overall audited jurisdiction of 36.20% interstate and 3.71% international for the Carrier's conference calling revenue. The Carrier's subsequent FCC Form 499-A filings have demonstrated that the Carrier's conference calling service involves substantial interstate and international traffic. For the audited period the Carrier was unable to provide any additional information to allow IAD to allocate between intrastate, interstate, and international categories. In addition, in its response, the Carrier offers no explanation regarding why the 36.20% interstate and 3.71% international percentages it proposes would result in an accurate reporting of its conference calling jurisdiction for the audited year.

### Block Three

USAC notes that the reclassification of revenue from Block 3 to Block 4 does have an impact on the Carrier's 2009 FCC Form 499-A contribution base for those products that contain an interstate and international jurisdictional component. Per a discussion with the Carrier on November 28, 2011, the Carrier's response refers to the classification of products within Block 3, not the reclassification of revenue associated with IAD's review of resellers.

## **USAC Management's Response**

USAC management has reviewed and agrees with this finding. During the audit, IAD used a variety of information to determine the jurisdiction of the Carrier's products, including the use of actual revenues, the average jurisdictional breakdown of all products, and the use of current revenue information as reported on the Carrier's 2011 FCC Form 499-A. In most cases, IAD used actual revenue information provided by the Carrier to determine the interstate jurisdiction of the Carrier's products. IAD used the average jurisdictional breakdown of all products only where the Carrier was unable to provide actual information (previous or current) regarding a particular product, such as its circuit switched data product, or where an individual product is associated with both local and long distance products, such as the Carrier's Commitment Billing product.

IAD used the jurisdictional percentages as reported and certified on the Carrier's 2011 FCC Form 499-A for the Carrier's conference calling revenues because the Carrier was

unable to provide any jurisdictional allocations for the revenue for the audited period. Moreover, the Carrier has only recently been able to determine the exact interstate and intrastate revenue allocations. The Carrier has suggested that USAC use the average jurisdictional allocations for all of its products to calculate its conference calling revenue, however, the Carrier has not provided any explanation or documentation to demonstrate how its previous conference calling customers would differ in their use of conference calling services from its current customers. Without such an explanation, USAC management agrees with IAD's determination to use the jurisdictional information as reported and certified on the Carrier's 2011 FCC Form 499-A.

The Carrier has provided USAC additional information regarding its current private line customers and has asked USAC to use that information to determine the private line interstate and intrastate jurisdictions for the audited period. IAD reviewed the additional information and determined that it does not support the revenue as reported on the 2009 FCC Form 499-A. USAC management agrees with IAD's determination because IAD's analysis of the top 100 customers demonstrates a potentially significant change in the makeup of the Carrier's private line customer base as between the audited year covering 2008 and the Carrier's current 2011 customers. Moreover, the Carrier did have an intrastate certification procedure in place during 2008 to determine the jurisdiction of its private line revenues and it was this procedure that IAD audited and found lacking.

The Carrier argues in its response that, "[s]ince the only certification mentioned by the Joint Board was to validate whether the line carried *more than* a certain amount of *interstate* traffic, and since the problem the Joint Board sought to solve was excessive interstate allocation, it stood that absent certification of interstate use, the line should be considered *intrastate*."<sup>22</sup> USAC Management notes that this position is in direct contrast to the Carrier's certification process which, as identified in IAD's response, relies on customer certifications to determine that the circuit purchased is intrastate (i.e., carries less than 10% interstate traffic). The Carrier does not, according to the information it has provided, have a certification process that requires a customer to certify that its circuits are interstate (i.e., carry more than 10% interstate traffic), which the Carrier argues is the proper way to determine jurisdiction. Regardless, as explained by IAD, the Carrier did not provide sufficient documentation to support the portion of its private line circuits that the Carrier classified as having intrastate jurisdiction. Thus, USAC management supports IAD's approach of classifying the revenues from any circuit without an intrastate customer certification as interstate.

As specified in the FCC's rules, it is the Carrier's obligation to retain, and to provide to IAD upon request, documentation supporting the revenues reported on its FCC Forms 499-A.<sup>23</sup> Therefore, based on the information available, USAC management concurs that

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<sup>22</sup> Carrier Response, *supra*, at 15 (emphasis in original).

<sup>23</sup> See 47 C.F.R. §§ 54.760(e) ("Any entity required to contribute to the federal universal service support mechanisms shall retain, for at least five years from the date of the contribution, all records that may be required to demonstrate to auditors that the contributions made were in compliance with the Commission's universal service rules."), and 54.7.11(a) ("The Commission or the Administrator may verify any information contained in the Telecommunications Reporting Worksheet. Contributors shall maintain records and documentation to justify information reported in the Telecommunications Worksheet,

the classification of the private line revenue at issue as jurisdictionally interstate is appropriate.

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including the methodology used to determine projections, for three years and shall provide such records and documentation to the Commission or the Administrator upon request.”).

**PaeTec Communications, Inc**  
**Filing Year 2009**  
**Detailed Audit Finding #2**  
**Non-Telecommunications Revenue**

**Criteria**

The Instructions to the 2009 FCC Form 499-A (Instructions) state:

“Line 303 and Line 404 – Monthly service, local calling including message and local toll charges, connection charges, vertical features, and other local exchange services should include the basic local service revenues....” 2009 FCC Form 499-A Instructions, § III.C.4 at 25, ¶ 2 (*Instructions for Lines 303 and 404*).

“Line 305 and Line 406 – Report on Lines 305 and 406 revenues from offering dedicated capacity between specified points even if the service is provided over local area switched MPLS, ATM, or frame relay networks.” 2009 FCC Form 499-A Instructions, § III.C.4 at 26, ¶ 3.

“Line 314 and Line 417 – All other long distance services should include all other revenues from providing long distance communications services....Line 314 and Line 417 should include switched data, frame relay and similar services where the customer is provided a toll network service rather than dedicated capacity between two points.” 2009 FCC Form 499-A Instructions, § III.C.4 at 29, ¶ 1 (*Instructions for Lines 314 and 417*).

“Gross revenues include account set-up, connection, service restoration, termination and other non-recurring charges. These charges should be reported on the same line that the filer reports any associated recurring revenue. For example, an early termination charge for an interstate private line service would be reported as interstate revenue on Line 415.” 2009 FCC Form 499-A Instructions, § III.C.2 at 20, ¶ 2 (*Instructions for non-recurring charges*).

**Condition**

In order to verify that the revenue reported on Line 418.3 was non-telecommunications revenue, IAD obtained a listing of the products reported on Line 418.3 and analyzed the listing. As a result of the testing, IAD identified the following products, which were reclassified to telecommunications lines on the Carrier’s 2009 FCC Form 499-A:

Local Calling Revenue:

IAD identified several local calling products with an intrastate jurisdiction which were reported as non-telecommunications revenue including:

- PRI T1 Install (general ledger (G/L) account 503925) – The Carrier reported [REDACTED], which represents revenue related to the physical installation of local loops. IAD determined that [REDACTED] is related to exempt resellers and

- reclassified this revenue to Line 303.2. The remainder of the revenue, [REDACTED], was reclassified to Line 404.3 (*see above: Instructions for Lines 303 and 404*).
- TecPath Install (G/L account 503926) – The Carrier reported [REDACTED] which represents revenue related to the physical installation of local loops. IAD determined that [REDACTED] is related to exempt resellers reclassified this revenue to Line 303.2. The remainder of the revenue, [REDACTED] was reclassified to Line 404.3 (*see above: Instructions for Lines 303 and 404*).
  - Local Loop Install (G/L account 503937) – The Carrier reported [REDACTED] which represents revenue related to the physical installation of local loops. IAD determined that [REDACTED] is related to exempt resellers and reclassified this revenue to Line 303.2. The remainder of the revenue, [REDACTED], was reclassified to Line 404.3 (*see above: Instructions for Lines 303 and 404*).
  - T1 Install (G/L account 503939) – The Carrier reported [REDACTED] which represents revenue related to the physical installation of local loops. IAD determined that negative [REDACTED] (i.e., the Carrier over-reported revenue) is related to exempt resellers and reclassified this revenue to Line 303.2. The remainder of the revenue, [REDACTED] was reclassified to Line 404.3 (*see above: Instructions for Lines 303 and 404*).
  - Miscellaneous NRC Install Charges (G/L account 504920) – The Carrier reported [REDACTED], which represents revenue related to installation of local wholesale and Advantage Business Lines. Advantage lines are part of the Business Lines offering, which is an entirely local service. IAD determined that [REDACTED] is related to exempt resellers and reclassified this revenue to Line 303.2. The remainder of the revenue, [REDACTED] was reclassified to Line 404.3 (*see above: Instructions for Lines 303 and 404*).
  - Miscellaneous Income – CCS (G/L account 507413) – The Carrier reported [REDACTED], which represents revenue related to the Carrier's Camps Link services. This is a purely local voice calling service. IAD reclassified this revenue to Line 404.3 (*see above: Instructions for Lines 303 and 404*).

Private Line Revenue:

The Carrier reported [REDACTED] from G/L account 501400, Miscellaneous Nonrecurring Install Charges. IAD obtained a product description from the Carrier, which indicates that this revenue relates to the installation of Point to Point services, as well as Multiprotocol Label Switching (MPLS) services. Revenue from private lines should be reported on Lines 305 and 406 (*see above: Instructions for Lines 305 and 406*) as follows:

- IAD determined that [REDACTED] is related to exempt resellers and reclassified this revenue to Line 305. IAD applied the audited private line jurisdiction of 67.36% interstate, or [REDACTED]

- The remainder of the revenue, [REDACTED] was reclassified to Line 406. IAD applied the audited private line jurisdiction of 67.36% interstate, or [REDACTED].

**Circuit Switched Data:**

The Carrier reported [REDACTED] from G/L account 501015, Circuit Switched Data. IAD was informed that this product represents data sent over switched circuits. IAD requested additional information from the Carrier, but no additional information was provided. As a result, IAD reclassified this product to Line 417, "All other long distance services." IAD applied the audited form jurisdiction from products testing and allocated 36.20% as interstate revenue and 3.71% as international revenue, or [REDACTED] and [REDACTED], respectively (see above: *Instructions for Lines 314 and 417*).

**Cause**

The Carrier was unaware of the proper FCC Form 499-A reporting requirements for its telecommunications and non-telecommunications revenues.

**Effect**

The audited Block 3 and Block 4 FCC Form 499-A lines are provided below:

2009 Form 499-A Line	Total Amount Reported	Interstate Amount Reported	International Amount Reported	Total Amount Audited	Interstate Amount Audited	International Amount Audited	Potential Effect on Contribution Base
303.2	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
305.1	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
404.3	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
406	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
417	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
418.3	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total Potential Effect on Contribution Base</b>							<b>\$</b>

**Recommendation**

IAD recommends that the Carrier obtain a better understanding of the FCC Form 499-A revenue reporting Instructions. The Carrier should re-file its 2009 FCC Form 499-A to accurately report its telecommunication and non-telecommunications revenues. Any filings where similar misclassifications may have occurred should also be re-filed and the revenue reported on the appropriate line items of the applicable FCC Form(s) 499-A.

**Carrier's Response**

Local Calling Revenue

PAETEC has no issue with the change of the installation charges to associated local telecommunications service.

Private Line Revenue

PAETEC has no issue with the change of miscellaneous nonrecurring install charges to their associated exempt or non-exempt categories. However, PAETEC does dispute the audit percentage of 67.36%, as described in greater detail with regards to PAETEC’s reporting of Private Line revenue, which is incorporated by reference.

Circuit Switched Data

PAETEC cannot confirm that USAC’s analysis is correct, as PAETEC cannot confirm that these revenues are indeed related to a telecommunications service. In addition, PAETEC notes that the interstate percentage applied is incorrect because it incorporates a private line calculation which is both incorrect (as noted above), and also inappropriate. Switched services and non-switched services have their jurisdiction determined by two different means, and thus it is not appropriate to incorporate switched and non-switched services together in determining a default jurisdictional breakout. PAETEC believes these percentages should be separately calculated.

**USAC IAD Response**

Private Line Revenue

IAD addressed the Carrier’s response related to IAD’s use of the audited private line interstate percentage of 67.36% as part of IAD’s response to the Block 3 and Block 4 Products and Jurisdiction Detailed Audit Finding.

Circuit Switched Data

As explained in the Condition of this finding, the Carrier did not provide IAD with additional product details when requested. In the Carrier’s Response, the Carrier again states it “cannot confirm that these revenues are indeed related to a telecommunications service.” The Carrier is unable to offer support that will justify the original classification as non-telecommunications revenue.

In addition, the Carrier challenges IAD’s interstate percentage as being inappropriate for this product. However, because the Carrier is unable to identify or provide any additional details, IAD believes the audited form jurisdiction from products testing, 36.20% interstate and 3.71% international, represents a reasonable method for calculating how this product should be reported on the FCC Form 499-A.

**USAC Management’s Response**

USAC management concurs with USAC IAD’s finding.

Circuit Switched Data

USAC management agrees with PAETEC that switched services and non-switched services have different paths for determining jurisdiction. However, when determining the jurisdiction of a specific product it is the particular characteristics of the product that

ultimately determine its jurisdiction. Local switched service is predominately intrastate. Switched toll service may be predominately interstate and international. As noted in the Carrier's response, the Carrier has not been able to provide IAD with any information about its Circuit Switched Data revenue, such as whether the product is a telecommunications product, or whether it is predominately local or predominately long distance. Because of the lack of information regarding this product, USAC management agrees with IAD that using the average jurisdictional breakout for all of the Carrier's products is appropriate.

**PAETEC Communications, Inc.**  
**Filing Year 2009**  
**Detailed Audit Finding #3**  
**Bad Debt**

**Criteria**

The Instructions to the 2009 FCC Form 499-A (Instructions) state:

“Filers report total uncollectible revenue/bad debt expenses on Lines 421 and 422. Filers that maintain separate detail of uncollectibles by type of business should rely on those records in dividing uncollectible expense between carrier’s carrier, contribution base and other revenues, and for dividing uncollectibles associated with contribution base revenues between intrastate, interstate, and international categories. Filers that do not have such detail should make such assignments in proportion to reported gross revenues.” 2009 FCC Form 499-A Instructions, § III.C.3 at 24, ¶ 2.

“Line 421 – Show the uncollectible revenue/bad debt expense associated with gross billed revenues amounts reported on Line 419....Reported uncollectible amounts should be the amount reported as bad debt expense in the filer’s income statement for the year.” 2009 Form 499-A Instructions, § III.C.5 at 30, ¶ 5.

“Line 422 – Show the portion of the uncollectible revenue/bad debt expense reported on Line 421 that is associated with just the universal service contribution base amounts reported on Line 420. Filers that maintain separate detail of uncollectibles by type of business should rely on those records in determining the portion of gross uncollectibles reported on Line 421 that should be reported on Line 422. Filers that do not have such detail should make such assignments in proportion to reported gross revenues.” 2009 Form 499-A Instructions, § III.C.5 at 30, ¶ 6.

**Condition**

The Carrier did not report any bad debt expense on Lines 421 and 422 of its 2009 FCC Form 499-A, but it did report [REDACTED] of bad debt expense in its 2008 general ledger. IAD used the amount reported in the 2008 general ledger as the Carrier’s total bad debt expense on Line 421. IAD calculated Line 422, bad debt expense associated with the universal service contribution base, based on the proportion of total revenue associated with the contribution base on the audited Lines 419 and 420. The calculation resulted in 76.62% of bad debt associated with the contribution base, or [REDACTED].

In addition, IAD allocated bad debt expense on Lines 421 and 422 among the intrastate, interstate, and international categories in proportion to the audited gross revenue amounts on Lines 419 and 420. On Line 421, IAD applied interstate and international percentages

of 31.99% and 3%, or [REDACTED] and [REDACTED] respectively. On Line 422, IAD applied interstate and international percentages of 36.06% and 3.69%, or [REDACTED] and [REDACTED], respectively.

**Cause**

The Carrier did not complete bad debt expense lines when preparing its 2009 FCC Form 499-A because the preparer originally believed that bad debt amounts were included within the revenues mapped to the FCC Form 499-A. This error was recognized during the course of the audit and brought to IAD’s attention.

**Effect**

The effect of this finding resulted in an overstatement of the Carrier’s 2009 contribution base as detailed below:

2009 Form 499-A Line	Total Amount Reported	Interstate Amount Reported	International Amount Reported	Total Amount Audited	Interstate Amount Audited	International Amount Audited	Potential Effect on Contribution Base
421	\$ -	\$ -	\$ -	[REDACTED]	[REDACTED]	\$ [REDACTED]	[REDACTED]
422	\$ -	\$ -	\$ -	[REDACTED]	[REDACTED]	\$ [REDACTED]	[REDACTED]
<b>Total Potential Effect on Contribution Base</b>							[REDACTED]

**Recommendation**

IAD recommends that the Carrier re-file its 2009 FCC Form 499-A to accurately report its bad debt expense.

**Carrier’s Response**

PAETEC agrees that it did not report a bad debt expense on Lines 421 and 422 of the 2009 originally filed report, and will revise accordingly in its filings.

**USAC Management’s Response**

USAC management concurs with USAC IAD’s finding.

**PaeTec Communications, Inc.**  
**Filing Year 2009**  
**Detailed Audit Finding #4**  
**Total Revenue**

**Criteria**

The Instructions to the 2009 FCC Form 499-A (Instructions) state:

“The reporting entity must report gross revenues from all sources, including non-regulated and non-telecommunications services on Lines 303 through 314 and Lines 403 through 418 and these must add to total gross revenues as reported on Line 419.” 2009 FCC Form 499-A Instructions, § III.C.2 at 20, ¶ 2.

“Line 418 should include revenues from the sale, lease, installation, maintenance, or insurance of customer premises equipment (CPE).” 2009 FCC Form 499-A Instructions, § III.C.4 at 29, ¶ 3.

**Condition**

The Carrier excluded revenue, totaling [REDACTED] related to the sale of equipment, from its 2009 FCC Form 499-A. This revenue was generated by one of its divisions, Integrated Solutions Group (ISG). IAD noted that this revenue should have been included in the Carrier’s total revenue and reported on Line 418.3.

**Cause**

The Carrier was unaware that, for FCC Form 499-A reporting purposes, the revenue earned by its ISG division was part of the Carrier’s total revenue, and was not the revenue of its separate entity.

**Effect**

Although this finding does not have an effect on the Carrier’s 2009 FCC Form 499-A contribution base, it resulted in an increase of [REDACTED] to Line 418.3

**Recommendation**

The Carrier should re-file its 2009 FCC Form 499-A to include the revenue earned by ISG in its total revenue. In addition, the Carrier should also re-file any filings where similar errors may have occurred to accurately report its total revenue.

**Carrier’s Response**

PAETEC has no disagreement with including the excluded revenue.

PAETEC REQUESTS THIS PARAGRAPH TO BE ADDED AS A RESPONSE TO THE SUMMARY.

The Audit Report fails to note that PAETEC has made a revision to its Form 499-A on March 31, 2010. While PAETEC has no objection to the audit being conducted on the original Form 499-A, the report should note that the actual calculation of additional contribution will differ from the report because of the previous revision.

**USAC IAD Response**

IAD announced the audit of the Carrier's 2009 FCC Form 499-A on October 14, 2009. The Carrier's revised 2009 FCC Form 499-A was filed on March 31, 2010, five months after the audit commenced. In order to complete the audit in an efficient manner, IAD continued to test the original FCC Form 499-A rather than re-perform audit procedures on revisions submitted during the course of the audit.

**USAC Management's Response**

USAC management concurs with USAC IAD's finding.

**PaeTec Communications, Inc.**  
**Filing Year 2009**  
**Detailed Audit Finding #5**  
**Reseller USF Recovery Charges**

**Criteria**

The Federal Communications Commission's (FCC or Commission) rules state:

“Federal universal service contribution costs may be recovered through interstate telecommunications-related charges to end users.” 47 C.F.R. § 54.712(a).

**Condition**

IAD reviewed the reseller listing provided by the Carrier, which contained detailed information for each reseller customer whose revenue was reported in Block 3 as carrier's carrier revenue. Of the 117 resellers classified within Block 3, IAD selected 48 reseller customers for testing which represented over 80% of the reseller-generated revenue reported in Block 3 of the Carrier's 2009 FCC Form 499-A. IAD requested two monthly invoices for each of the 48 reseller customers.

Upon review of the reseller invoices, IAD noted that federal USF charges were assessed on 27 of the 48 reseller customers. Although the Carrier's records indicate that it has refunded some of the charges, not all reseller customers received a refund.

**Cause**

The Carrier informed IAD that the 27 customers identified as testing exceptions primarily represented one of two situations. First, the Carrier reported its Voice over Internet Protocol (VoIP) revenue under the belief that all VoIP revenue should be reported in Block 4, even revenue from valid resellers whose revenue may otherwise be reported in Block 3. As a result, VoIP revenues associated with these reseller customers were improperly assessed USF charges as if they were end-user revenues.

Second, an error in the Carrier's billing system occurred during 2008, which caused child accounts of wholesale customers to lose their exemption status within the Carrier's billing system. The exemption status was either dropped completely or the child account exemption status expiration date was incorrectly altered. Due to the volume of billing system corrections necessary, the Carrier was unable to identify and process the associated refunds in all instances.

**Effect**

The testing performed on the Carrier's invoices is on a sample basis, and it indicates that the total effect extends to invoices throughout the entire year.

The specific overall monetary effect of USF overcharging on the Carrier's 2009 FCC Form 499-A contribution base cannot be determined until the Carrier conducts a detailed

analysis of all reseller customer invoices and any refunds processed to correct improper USF assessments.

### **Recommendation**

IAD recommends that the Carrier conduct a thorough review of customers classified as exempt resellers within Block 3 of the 2009 FCC Form 499-A to ensure that all VoIP revenue associated with exempt resellers is properly excluded from USF assessment and to ensure the error for child accounts has been completely addressed. Additionally, we recommend the Carrier implement internal controls related to identifying and exempting reseller accounts from USF charges to include the following: a more detailed review of newly opened accounts to determine whether the account is associated with an exempt parent account, a system for processing customer complaints regarding USF charges, and regularly scheduled reviews by account managers to determine whether any paperwork was mistakenly omitted that might have led to an exemption for the reseller customer in the billing system.

Consistent with the Commission's *Clear World Order*, IAD further recommends that the Carrier identify the amount of overcharges it imposed on its customers and refund those amounts to its customers.<sup>24</sup>

### **Carrier's Response**

While PAETEC acknowledges that it inadvertently charged certain wholesale customers a USF surcharge, PAETEC believes that the issue was corrected and customers were credited at the time it was discovered during the audit. PAETEC has in place several procedures that correct any concerns that the IAD had regarding exemption and credits. During the course of the audit period, PAETEC personnel reached out to the IAD audit team to discuss current customers' complaints regarding PAETEC's reseller exemption process. In each case, PAETEC was reassured that their process was correct by IAD.

As such, PAETEC considers this matter closed as having been completed prior to the issuance of the audit report.

### **USAC IAD Response**

The Carrier states that it believes its reseller customers received a credit for USF charges at the time the issue was discovered during the audit. IAD recommends that the Carrier ensure that a refund was provided to all 27 reseller customers that were improperly assessed a USF pass-through charge on their invoices. IAD has not reviewed or evaluated the procedures implemented by the Carrier to address IAD's reseller USF pass-through charge finding. Therefore, IAD is not in a position to comment on whether the Carrier's recently implemented procedures will prevent future violations of the Rules.

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<sup>24</sup> *In the Matter of Universal Service Contribution Methodology, Request for Review of Decision of the Universal Service Administrator by Clear World Communications Corporation*, WC Docket No. 06-122, Order, DA 11-752, 26 FCC Rcd 6234 (2011) (*Clear World Order*).

The Carrier further states in its response that IAD assured the Carrier that its reseller exemption process was correct with regard to the resolution of specific customer complaints. While IAD did provide general guidance regarding individual USF customer inquiries received by the Carrier during the course of the audit, IAD notes that it did so based on the information provided by the Carrier at the time, and the Carrier's response does not contain sufficient detail to allow IAD to conclude whether the Carrier has properly responded to complaints by its customers as a general matter.

### **USAC Management's Response**

Pursuant to FCC Rule 54.712, "[f]ederal universal service contribution costs may be recovered through interstate telecommunications-related charges to end users. If a contributor chooses to recover its federal universal service contribution costs through a line item on a customer's bill the amount of the federal universal service line-item charge may not exceed the interstate telecommunications portion of that customer's bill times the relevant contribution factor."<sup>25</sup>

Therefore, consistent with Commission's *Clear World Order*, if a Carrier overcharges USF to its customers, the Carrier must identify the amount of the overcharges and refund those amounts to its customers.<sup>26</sup> USAC does not endorse any particular method used to refund customers, and USAC is not permitted to accept from the carrier all or a portion of the amounts associated with customer overcharges.<sup>27</sup>

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<sup>25</sup> 47 C.F.R. § 54.712.

<sup>26</sup> See generally, *Clear World Order*.

<sup>27</sup> *Id.*

**PAETEC Communications, Inc.**  
**Filing Year 2009**  
**Detailed Audit Finding #6**  
**Block 5 Percentages**

**Criteria**

The Instructions to the 2009 FCC Form 499-A (Instructions) state:

“Lines 503-510 – In these lines, filers should identify the percentages of their telecommunications revenues by LNPA region. Payphone service providers, private service providers, and shared-tenant service providers that have certified that they are exempt from contributing to the shared costs of LNP need not provide these breakdowns. Carriers and interconnected VoIP providers should calculate or estimate the percentage of revenues that they billed in each region based on the amount of service they actually provided in the parts of the United States listed for each region. The percentages in column (a) should add to 100% unless the filer did not provide any services for resale by other contributors to the federal universal service support mechanisms. The percentages in column (b) should add to 100% unless the filer did not provide any telecommunications services to end users or non-contributing carriers. Carriers do not need to complete column (a) if they have some end-user revenues in each of the regions in which they have carrier operations.”  
2009 FCC Form 499-A Instructions, § III.D at 32, ¶ 1.

**Condition**

The Carrier reported its total revenue, rather than just its end-user telecommunications revenue, by Local Number Portability Administration (LNPA) region in column (b), “Block 4 End-User Telecom,” of Block 5 of its 2009 FCC Form 499-A. Total revenue includes reseller revenue and non-telecommunications revenue which should not be included in the LNPA calculation.

**Cause**

The Carrier was unaware of the proper FCC Form 499-A reporting requirements for Block 5 percentages.

**Effect**

This finding does not have an effect on the Carrier’s universal service contribution base. However, it does affect the LNPA. IAD was unable to calculate the correct LNPA percentages because regional location information provided to IAD included revenues associated with non-telecommunications.

**Recommendation**

Block 5, column (b) percentages should be recalculated using Block 4 (end-user) telecommunication revenues, and the Carrier should re-file its 2009 FCC Form 499-A to

properly report these percentages. In addition, the Carrier should re-file any filings where similar errors may have occurred to accurately report its revenue by LNPA region.

**Carrier's Response**

PAETEC concurs that the percentages in Block 5 need to be recalculated to exclude non-telecommunication revenue.

**USAC Management's Response**

USAC management concurs with USAC IAD's finding.

**PAETEC Communications, Inc.**  
**Filing Year 2009**  
**Detailed Audit Finding #7**  
**D.C. Agent**

**Criteria**

The Instructions to the 2009 FCC Form 499-A (Instructions) state:

“Lines 209-218 – The second part of Block 2 contains information on the filer’s agents for service of process, including the agent located in the District of Columbia (‘D.C. Agent’). All carriers and interconnected VoIP providers must enter the name, business address, telephone or voicemail number, facsimile number, and, if available, Internet e-mail address for their designated D.C. Agent.” 2009 FCC Form 499-A Instructions, § III.B.2 at 17, ¶ 3.

**Condition**

IAD reviewed the Carrier’s 2009 FCC Form 499-A to ensure it included the information required by the Instructions. In Block 2-B of the 2009 FCC Form 499-A, the Carrier reported the company that serves as its D.C. agent, but the Carrier did not complete Line 209, omitting the first and last name of the D.C. agent. In addition, the D.C. agent’s telephone number was omitted from Line 210, and the facsimile number was omitted from Line 211.

**Cause**

IAD concluded that the cause was due to the Carrier’s lack of understanding regarding the proper reporting of D.C. agent information.

**Effect**

This finding does not have an effect on the Carrier’s 2009 FCC Form 499-A contribution base.

**Recommendation**

IAD recommends that the Carrier re-file its 2009 FCC Form 499-A to include the information required by the Instructions. In addition, any filings where similar omissions may have occurred should also be re-filed and the D.C. agent information reported in accordance with the Instructions.

**Carrier’s Response**

PAETEC agrees that the information was not on the form. It does not agree that it was due to a lack of understanding. PAETEC also disputes whether a phone number or email is required for a DC Agent under FCC rules. As the FCC does not recognize service by phone or by email, such information is purely for informational purposes and does not constitute a waiver to a right of service via U.S. Mail.

**USAC Management's Response**

The FCC rules state that every common carrier and interconnected VoIP provider, as defined in FCC Rule 54.5, that is subject to the Communications Act of 1934, as amended, must designate a D.C. agent and such designation must include a telephone or voice mail number, facsimile number, and, if available, Internet email address.<sup>28</sup> USAC management concurs with IAD's finding that the Carrier did not submit complete information pertaining to the Carrier's designated D.C. agent as required by FCC Rule 1.47(h) on its 2009 FCC Form 499-A filing. USAC management notes, however, that the Carrier's 2011 FCC Form 499-A does contain all of the required D.C. agent information, except for the facsimile number.

USAC, in its role as the data collection agent for the FCC Form 499, is only responsible for collecting the Carrier's D.C. agent information and providing that information to the Commission. Any concerns the Carrier may have regarding the purpose or use of the information, or the Commission's service requirements, should be addressed directly to the Commission.

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<sup>28</sup> 47 C.F.R. § 1.47(h) (further stating that “[e]ach Telecommunications Reporting Worksheet filed annually by a common carrier or interconnected VoIP provider must contain a name, business address, telephone or voicemail number, facsimile number, and, if available, Internet e-mail address for its designated agents, regardless of whether the information has been revised since the previous filing. Carriers and interconnected VoIP providers must notify the Commission within one week of any changes in their designation information by filing revised portions of the Telecommunications Reporting Worksheet with the Chief of the Enforcement Bureau’s Market Disputes Resolution Division.”).

**PAETEC Communications, Inc**  
**Filing Year 2009**  
**Other Matter**  
**Virtual Private Network (VPN)**

**Criteria**

The Instructions to the 2009 FCC Form 499-A (Instructions) state:

“...the term ‘telecommunications’ means the transmission, between or among points specified by the user, of information of the user’s choosing, without change in the form or content of the information as sent and received.” 2009 FCC Form 499-A Instructions, § II.A at 4, ¶ 4.

“Line 418 should include all non-telecommunications service revenues on the reporting entity's books, as well as some revenues that are derived from telecommunications-related functions, but that should not be included in the universal service or other fund contribution bases.” 2009 FCC Form 499-A Instructions, § III.C.4 at 29, ¶ 3.

**Condition**

IAD received documentation from the Carrier that demonstrated VPN revenue of [REDACTED] associated with the Carrier’s exempt resellers. The Carrier reported this revenue on Line 305 as 33%, or [REDACTED] interstate revenue. IAD also received documentation that demonstrated VPN revenue of [REDACTED] associated with the Carrier’s end-users. The Carrier reported this revenue on Line 406 as 33%, or [REDACTED], interstate revenue.<sup>29</sup>

VPN provides the functions and features of a private network without the need for dedicated private lines between corporate sites. Each site connects to the provider’s network rather than directly to another corporate location. Through the use of an encrypt-transmit-decrypt process referred to as tunneling, VPN customers have a solution that is the same as dedicated point-to-point connections.

Due to the complexity of the product, USAC has requested guidance from the FCC as to the proper classification of VPN services. In the interim, IAD will treat this issue as an Other Matter as its outcome may or may not affect our conclusion concerning the Carrier’s compliance with the Rules.

**Cause**

The Carrier considers this product a telecommunications service.

**Effect**

IAD cannot presently determine if this issue will have an effect on the Carrier’s contribution base. Of the [REDACTED] of VPN revenue that IAD determined relates to

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<sup>29</sup> The Block 3 and Block 4 Products & Jurisdiction Detailed Audit Finding contains additional details regarding the calculation of the Carrier’s VPN revenues.

**PaeTec Communications, Inc.  
Filing Year 2009  
Summary**

Following is a summary of the Findings discussed above and the estimated effect on the Carrier's USF contribution base.

**2009 FCC Form 499-A (Calendar Year 2008 Revenues)**

Form 499-A Line	Total Amount Reported	Interstate Amount Reported	International Amount Reported	Total Amount Audited	Interstate Amount Audited	International Amount Audited	Potential Effect On Contribution Base
303.2							
304.1							
305.1							
305.2							
307							
310							
311							
312							
314							
315							
403							
404.3							
404.5							
405							
406							
408							
413							
414.1							
415							
417							
418.3							
419							
420							
421							
422							
				<b>Total Potential Effect on Contribution Base</b>			<b>\$</b>

This concludes the results of IAD's audit. Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes.

This report is confidential and its distribution is limited pursuant to the requirements of 47 C.F.R. § 54.711(b).

end-users on Line 406, 33%, or [REDACTED] is interstate revenue. IAD notes the potential amount from the VPN product that may need to be reclassified into the Carrier's contribution base revenues totals [REDACTED]

### **Recommendation**

IAD will issue a recommendation upon receiving FCC guidance and the completion of any necessary follow-up work.

### **Carrier's Response**

USAC's conclusion is that PAETEC included VPN revenues as a telecommunication service, but offers no discussion on whether that is accurate or inaccurate. PAETEC understands that this issue is pending at the FCC. Should the FCC determine that PAETEC should have treated its VPN revenue as information service, in whole or in part, PAETEC reserves the right to apply this decision retroactively to the remainder of this audit decision. In other words, should PAETEC be due additional credits, PAETEC believes it should have the right to take them, retroactively, as credits to other results in this audit at any time in the future. If not, then PAETEC could be prejudiced by USAC's inability to decide on whether PAETEC reported this revenue correctly. If USAC disagrees with PAETEC's belief that it should have this right to offset against other findings in the audit, then the entire audit should be held in abeyance until such time as the FCC rules on this other matter.

### **USAC Management's Response**

USAC management concurs with IAD's finding. Please note that all FCC Form 499-A filings are subject to the annual revision deadline established by the FCC.<sup>30</sup> Therefore, USAC will not accept a downwardly revised FCC Form 499-A after the expiration of the one-year revision window unless directed to do so by the FCC.

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<sup>30</sup> *In the Matter of Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Changes to the Board of Directors of the National Exchange Carrier Associations, Inc.*, CC Docket Nos. 96-45, 98-171, 97-21, Order, DA 04-3669, 20 FCC Rcd 1012, 1016-1017, ¶ 10 (2004).