

orders or decisions explicitly address the definition of competitive eligible telecommunications carrier ("CLETC") "working loops" for universal service support purposes.

Monetary Impact on Support



Recommendation



Management Response

[Open for Management's Response]

5/18/2011

CONFIDENTIAL
Mobi PCS Mail - Coral Documents

ATTACHMENT 28



Peter Gose <peter.gose@mobipcs.com>

Coral Documents

1 message

Smith, Krista McClintock (US - McLean) <kmcclintock@deloitte.com>
To: Peter Gose <peter.gose@mobipcs.com>

Mon, Mar 8, 2010 at 8:10 AM

Peter –

We reviewed the attached over the weekend and are prepared [REDACTED]
Would you please let me know this morning if the attached language is acceptable to the company?

Regards,

Krista

Krista M. Smith

Assurance and Enterprise Risk Services
Deloitte & Touche LLP

Tel: +1 703 251 1340
Fax: +1 703 332 7977
Mobile: + 1 973 978 8109
kmcclintock@deloitte.com
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2 attachments



[REDACTED]
31K



[REDACTED]
25K

5/18/2011

CONFIDENTIAL
Mobi PCS Mail - Coral Documents

ATTACHMENT 28

***Universal Service
Administrative Company
High Cost Support
Mechanism***

*Independent Accountants' Report on Compliance
Relating to High Cost Support Received by Coral
Wireless LLC d/b/a Mobi PCS (HC-2008-126) for the
Year Ended June 30, 2008*

INDEPENDENT ACCOUNTANTS' REPORT

Universal Service Administrative Company
Federal Communications Commission

We were engaged to examine the compliance of Coral Wireless LLC d/b/a Mobi PCS (Beneficiary), relative to Study Area Code No. 629002, with 47 C.F.R. Part 54, Subparts C and D of the Federal Communications Commission's ("FCC") Rules and related Orders governing Universal Service Support for the High Cost Program ("HCP") relative to disbursements of \$14,971,972 for telecommunication services made from the Universal Service Fund during the year ended June 30, 2008. Management of the Beneficiary is responsible for the Beneficiary's compliance with those requirements.

As discussed in Finding HC2008BE126 F01, FCC Rule §54.307(b) defines working loops for competitive eligible telecommunications carriers as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. The Beneficiary interprets the term working loop to include any line from the moment the Beneficiary connects the line by assigning a particular telephone number to a specific customer until the Beneficiary disconnects the line and returns that telephone number to available inventory for assignment to a new customer. The Beneficiary has the right to place various limits upon the service in the 60 to 90 days preceding the disconnect date. During the 60 to 90 days preceding the disconnect date, the Beneficiary considers these lines as working loops and includes them in line counts submitted in accordance with FCC Rule §54.307. Line counts are used in the calculation of the Beneficiary's Universal Service Support, which totaled \$14,971,972 for the year ended June 30, 2008. We were unable to satisfy ourselves concerning the acceptability of the inclusion of lines 60 to 90 days preceding their disconnect date as the FCC Rules do not clearly indicate these lines would be considered other than working loops as described above.



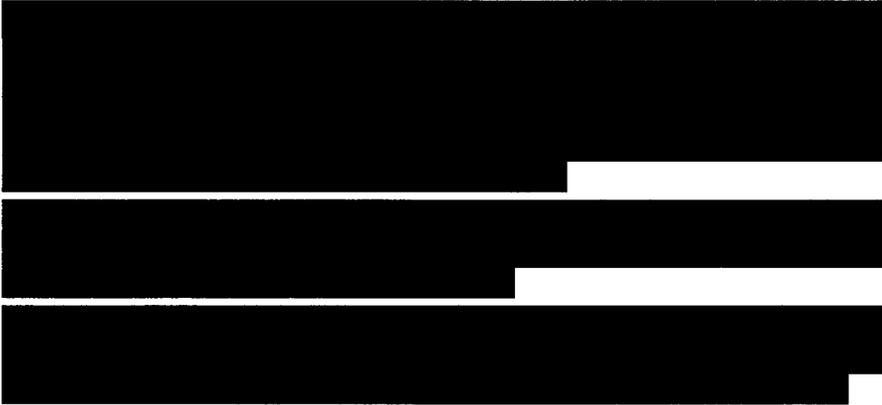
This report is intended solely for the information and use of the Universal Service Administrative Company and the Federal Communications Commission, and is not intended to be and should not be used by anyone other than these specified parties.

INSERT DATE

cc: Management of the Beneficiary

ATTACHMENT:
FINDING

Detailed Information Relative to Material Noncompliance (Finding)

Finding No.	HC2008BE126_F01
Condition	
Criteria	<p>Federal Communications Commission (FCC) Rule §54.307(a) provides that a competitive eligible telecommunications carrier (“CETC”) may receive universal service support to the extent that the competitive eligible telecommunications carrier captures the subscriber lines of an incumbent local exchange carrier (LEC) or serves new subscriber lines in the incumbent LEC's service area.</p> <p>Under FCC Rule §54.307(b), in order to receive support, a competitive eligible telecommunications carrier must report to the Administrator the number of working loops it serves in a service area pursuant to the schedule set forth in paragraph (c) of this section. <u>FCC Rule §54.307(b) defines working loops for CETC's as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service.</u></p>
Effect	
Cause	<p><u>Apart from Section 54.307(b) of the FCC's Rules, no FCC rules, orders or decisions explicitly address the definition of CETC working loops for universal service support purposes.</u></p>
Monetary Impact on Support	
Recommendation	<p><u>The Beneficiary should seek guidance from the FCC on whether their policy, including the interpretation of a working loop is in keeping with the FCC Rules.</u></p>
Management Response	[Open for Management's Response]

March 5, 2010

Deloitte & Touche LLP
1750 Tysons Boulevard
McLean, Virginia 22102

We are providing this letter in connection with your ~~engagement examination to examine~~ of the the compliance of Coral Wireless LLC d/b/a Mobile PCS (the "Beneficiary") regarding the Beneficiary's compliance, relative to Study Area Code No. 629002, with 47 C.F.R. Part 54, Subparts C and D of the Federal Communications Commission's ("FCC") Rules and related Orders ("Rules and Orders") governing Universal Service Support for the High Cost Program relative to disbursements of \$14,971,972 for telecommunication services made from the Universal Service Fund during the year ended June 30, 2008. Accordingly, we confirm the following:

- a. Management is responsible for complying, relative to Study Area Code No. 629002, with the FCC Rules and Orders governing Universal Service Support for the High Cost Program ("HCP").
- b. The Beneficiary is responsible for establishing and maintaining effective internal control over compliance with the FCC Rules and Orders.
- c. Management has performed an evaluation of the Beneficiary's compliance, relative to Study Area Code No. 629002, with the FCC Rules and Orders for the year ended June 30, 2008, and the Beneficiary ~~has~~ believes that it has complied with the FCC Rules and Orders for the year ended June 30, 2008; [REDACTED]

We confirm to the best of our knowledge and belief, the following representations made to you during your engagement:

1. [REDACTED]
2. We have made available all records and documentation related to compliance with the FCC Rules and Orders.
3. We have disclosed all communications from regulatory agencies, internal auditors, and others concerning possible noncompliance with the FCC Rules and Orders, including communications received subsequent to June 30, 2008.
4. We have no knowledge of any fraud or suspected fraud affecting the Beneficiary involving (1) management, (2) employees who have significant roles in internal control over compliance, or (3) others where the fraud could have a material effect on compliance with the FCC Rules and Orders.
5. There were no allegations of fraud or suspected fraud affecting the Beneficiary received in communications from employees, former employees, analysts, regulators, short sellers, or others that could have a material effect on compliance with the FCC Rules and Orders.
6. No instances of noncompliance with the FCC Rules and Orders occurred subsequent to June 30, 2008 and through the date of this letter.

7. We used all of the \$14,971,972 in federal high cost support provided to the Beneficiary for the year ended June 30, 2008 solely for the provision, maintenance and upgrading of facilities and services for which support is intended.

7.—

8.



Barry Rinaldo
Chief Financial Officer
On Behalf of Coral Wireless LLC

5/19/2011

CONFIDENTIAL
Mobi PCS Mail - Re: Coral - Status of M...

ATTACHMENT 31



Peter Gose <peter.gose@mobicps.com>

Re: Coral - Status of Management Response and Rep Letter

1 message

Peter Gose <peter.gose@mobicps.com>

Thu, Mar 18, 2010 at 6:57 PM

To: "Smith, Krista McClintock (US - McLean)" <kmclintock@deloitte.com>

Bcc: Barry Rinaldo <barry.rinaldo@mobicps.com>, "Daubert, Todd" <TDaubert@kelleydrye.com>, Stephen Johnston <sjohnston@clrparkers.com>

Krista,

Please find attached the following two (2) documents:

1. Management representation letter signed by Barry Rinaldo, Mobi PCS CFO.
2. Management response to audit report.

If you have questions please advise.

Thank you.

Peter Gose
Director - Regulatory Affairs



Pacific Guardian Center - Makai Tower
733 Bishop St. Suite 1200
Honolulu, HI 96813
Direct Line 808.723.2072
Direct Fax 808.723.2172
peter.gose@mobicps.com

--- @ WiseStamp Signature. [Get it now](#)

On Thu, Mar 18, 2010 at 3:49 PM, Smith, Krista McClintock (US - McLean) <kmclintock@deloitte.com> wrote:

Peter –

Would you please provide me with a status update?

Regards,

Krista

Krista M. Smith

CONFIDENTIAL

5/19/2011

Mobi PCS Mail - Re: Coral - Status of M...

ATTACHMENT 31

Assurance and Enterprise Risk Services
Deloitte & Touche LLP

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2 attachments

 **Deloitte Audit Report - Management Response - Final - 3-05-2010.pdf**
21K

 **Coral Wireless Management Representation Letter - Final - BRR Signature - 3-5-2010.pdf**
535K

Coral Wireless LLC dba



March 5, 2010

Deloitte & Touche LLP
1750 Tysons Boulevard
McLean, Virginia 22102

We are providing this letter in connection with your engagement to examine the compliance of Coral Wireless LLC d/b/a Mobile PCS (the "Beneficiary") regarding the Beneficiary's compliance, relative to Study Area Code No. 629002, with 47 C.F.R. Part 54, Subparts C and D of the Federal Communications Commission's ("FCC") Rules and related Orders ("Rules and Orders") governing Universal Service Support for the High Cost Program relative to disbursements of \$14,971,972 for telecommunication services made from the Universal Service Fund during the year ended June 30, 2008. Accordingly, the Beneficiary confirms the following:

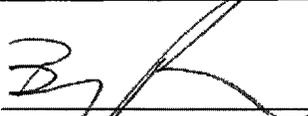
- a. Management is responsible for complying, relative to Study Area Code No. 629002, with the FCC Rules and Orders governing Universal Service Support for the High Cost Program ("HCP").
- b. The Beneficiary is responsible for establishing and maintaining effective internal control over compliance with the FCC Rules and Orders.
- c. Management has performed an evaluation of the Beneficiary's compliance, relative to Study Area Code No. 629002, with the FCC Rules and Orders for the year ended June 30, 2008, and the Beneficiary believes that it has fully complied with the FCC Rules and Orders for the year ended June 30, 2008.

The Beneficiary confirms to the best of its knowledge and belief, the following representations made to you during your engagement:

1. [REDACTED]
2. The Beneficiary has made available all records and documentation related to compliance with the FCC Rules and Orders.
3. The Beneficiary has disclosed all communications from regulatory agencies, internal auditors, and others concerning possible noncompliance with the FCC Rules and Orders, including communications received subsequent to June 30, 2008.

4. The Beneficiary has no knowledge of any fraud or suspected fraud affecting the Beneficiary involving (1) management, (2) employees who have significant roles in internal control over compliance, or (3) others where the fraud could have a material effect on compliance with the FCC Rules and Orders.
5. There were no allegations of fraud or suspected fraud affecting the Beneficiary received in communications from employees, former employees, analysts, regulators, short sellers, or others that could have a material effect on compliance with the FCC Rules and Orders.
6. No instances of noncompliance with the FCC Rules and Orders occurred subsequent to June 30, 2008 and through the date of this letter.
7. The Beneficiary used all of the \$14,971,972 in federal high cost support provided to the Beneficiary for the year ended June 30, 2008 solely for the provision, maintenance and upgrading of facilities and services for which support is intended.

8. [REDACTED]



Barry Pinaldo
Chief Financial Officer
On Behalf of Coral Wireless LLC

***Universal Service
Administrative Company
High Cost Support
Mechanism***

*Independent Accountants' Report on Compliance
Relating to High Cost Support Received by Coral
Wireless LLC d/b/a Mobi PCS (HC-2008-126) for the
Year Ended June 30, 2008*

INDEPENDENT ACCOUNTANTS' REPORT

Universal Service Administrative Company
Federal Communications Commission

We were engaged to examine the compliance of Coral Wireless LLC d/b/a Mobi PCS (Beneficiary), relative to Study Area Code No. 629002, with 47 C.F.R. Part 54, Subparts C and D of the Federal Communications Commission's ("FCC") Rules and related Orders governing Universal Service Support for the High Cost Program ("HCP") relative to disbursements of \$14,971,972 for telecommunication services made from the Universal Service Fund during the year ended June 30, 2008. Management of the Beneficiary is responsible for the Beneficiary's compliance with those requirements.

As discussed in Finding HC2008BE126_F01, FCC Rule §54.307(b) defines working loops for competitive eligible telecommunications carriers as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. The Beneficiary interprets the term working loop to include any line from the moment the Beneficiary connects the line by assigning a particular telephone number to a specific customer until the Beneficiary disconnects the line and returns that telephone number to available inventory for assignment to a new customer. The Beneficiary has the right to place various limits upon the service in the 60 to 90 days preceding the disconnect date. During the 60 to 90 days preceding the disconnect date, the Beneficiary considers these lines as working loops and includes them in line counts submitted in accordance with FCC Rule §54.307. Line counts are used in the calculation of the Beneficiary's Universal Service Support, which totaled \$14,971,972 for the year ended June 30, 2008. We were unable to satisfy ourselves concerning the acceptability of the inclusion of lines 60 to 90 days preceding their disconnect date as the FCC Rules do not clearly indicate these lines would be considered other than working loops as described above.



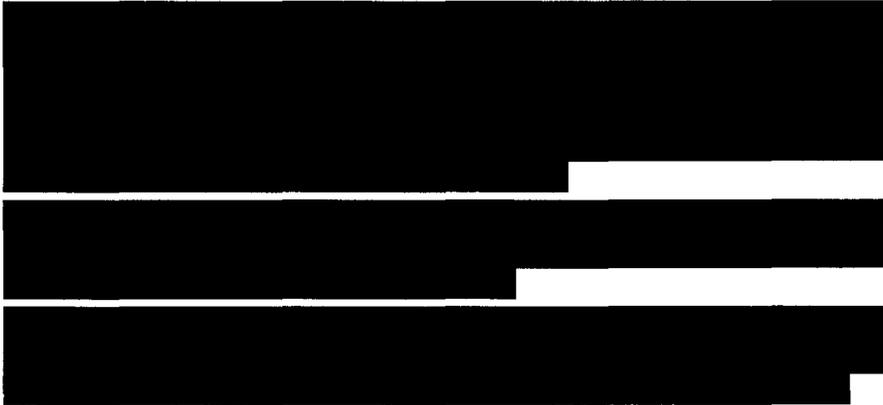
This report is intended solely for the information and use of the Universal Service Administrative Company and the Federal Communications Commission, and is not intended to be and should not be used by anyone other than these specified parties.

INSERT DATE

cc: Management of the Beneficiary

ATTACHMENT:
FINDING

Detailed Information Relative to Material Noncompliance (Finding)

Finding No.	HC2008BE126_F01
Condition	
Criteria	<p>Federal Communications Commission (FCC) Rule §54.307(a) provides that a competitive eligible telecommunications carrier (“CETC”) may receive universal service support to the extent that the competitive eligible telecommunications carrier captures the subscriber lines of an incumbent local exchange carrier (LEC) or serves new subscriber lines in the incumbent LEC's service area.</p> <p>Under FCC Rule §54.307(b), in order to receive support, a competitive eligible telecommunications carrier must report to the Administrator the number of working loops it serves in a service area pursuant to the schedule set forth in paragraph (c) of this section. FCC Rule §54.307(b) defines working loops for CETC's as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service.</p>
Effect	
Cause	
Monetary Impact on Support	
Recommendation	The Beneficiary should seek guidance from the FCC on whether their policy, including the interpretation of a working loop is in keeping with the FCC Rules.
Management Response	Coral Wireless, LLC, d/b/a Mobi PCS (“Coral”), hereby responds to the Independent Accountants’ (“Deloitte”) Report on Compliance Relating to High Cost Support Received by Coral Wireless LLC d/b/a Mobi PCS (HC-2008-126) for the Year Ended June 30, 2008 (the “Report”). Coral provides pre-paid mobile services. Apart from Section 54.307(c) of the FCC’s Rules, no FCC rules, orders

or decisions explicitly address the definition of competitive eligible telecommunications carrier ("CETC") "working loops" for universal service support purposes. Indeed, on October 27, 2003, the FCC denied a petition filed by the Personal Communications Industry Association ("PCIA") requesting clarification of the definition of "working loops" as applied to wireless CETCs on the grounds that

[t]he issues raised by PCIA are within the scope of the separate proceeding to comprehensively reexamine the Commission's rules governing portability of high-cost support, which is currently before the Joint Board. ***We emphasize that our denial of PCIA's petition here does not in any way prejudge what action we ultimately may take in the portability proceeding.***

Federal-State Joint Board on Universal Service, 18 FCC Rcd 22559, 22639 (2003) (emphasis added); *see also* Petition for Reconsideration and/or Clarification of the Personal Communications Industry Association, CC Docket No. 96-45 (filed Jan. 3, 2000) at 5 ("PCIA requests that the Commission clarify or, as necessary, reconsider this requirement with respect to wireless carriers and find that a "working loop" for a wireless carrier is designated by a working phone number."). The Commission has yet to take any action in the portability proceeding, and thus any clarification of Section 54.307(c) of the FCC's rules by the Commission would have to apply on a prospective basis only. In light of the Commission's pending consideration of the clarification of the definition of "Working Loop" as applied to wireless CETCs, Coral interprets the term "Working Loop" to include any line from the moment Coral connects the line by assigning a particular telephone number to, or porting in a particular telephone number on behalf of, a specific customer until Coral disconnects the line and returns that telephone number to Coral's available inventory for assignment to a new customer on a first come, first served basis or releases it to the carrier from which it was ported in to Coral on behalf of the former customer (Coral does not hold telephone numbers on reserve for customers in anticipation of the establishment of an account or on a seasonal basis). Coral determines the date upon which a customer's line will be disconnected pursuant to its disconnection policy. As a provider of pre-paid mobile services, a customer can purchase more pre-paid services at any time until the customer's line is disconnected pursuant to the disconnection policy. As such, until the day of disconnection pursuant to the disconnection policy, it is impossible to know whether a customer's line will be disconnected or not. Therefore, Coral's interpretation of Section 54.307(c) of the FCC's rules is reasonable and consistent with FCC precedent.



MEMORANDUM

To: Karen Majcher, Vice President, High Cost and Low Income Division

From: Wayne Scott, Vice President, Internal Audit Division

Date: August 22, 2011

Re: Follow-up of Deloitte Audit of Coral Wireless d/b/a Mobi PCS
(HC2008BE126)

Introduction

The Universal Service Administrative Company (USAC), at the direction of the Federal Communications Commission (FCC) Office of Inspector General (OIG), previously engaged the services of the independent accounting firm Deloitte and Touche', LLP (Firm) to perform an examination and provide an opinion concerning Coral Wireless d/b/a Mobi PCS (Coral Wireless or Beneficiary) compliance with 47 C.F.R. Parts 32, 36, 64, and 69, and relevant Commission orders (collectively, the Rules) and to assist in fulfilling FCC requirements related to the Improper Payment Information Act (IPIA)¹ for High Cost Program support disbursements made by USAC during the period July 1, 2006 through June 30, 2007 (Audit Period). [REDACTED]

The USAC Internal Audit Division (IAD) reviewed the audit work papers and supporting documentation completed by the Firm, including the working loop finding noted by the Firm. IAD determined that the Firm has obtained adequate documentation to support the working loop finding.

Background

In the attestation engagement report dated March 10, 2010, the Firm reported that the Coral Wireless (the Beneficiary) interprets the term "Working Loop" to include any line from the moment the Beneficiary connects the line by assigning a particular telephone number to a specific customer until the Beneficiary disconnects the line and returns that telephone number to available inventory for

¹ See 31 U.S.C. § 3122; Public Law 107-300, Stat. 2350, November 26, 2002.

assignment to a new customer. [REDACTED]

[REDACTED] The lines do not appear to meet the definition of a working loop as the service is prepaid, meaning that the line is not revenue producing, and was not active as of September 30, 2006.

The finding provided below is similar to the finding noted in the original audit (HC-2008-126) with additional details provided.

Condition

The Beneficiary provides wireless services on a month-to-month basis where the services are paid in advance. Revenues from wireless services are recognized as services are rendered. Amounts received in advance are recorded as deferred revenue and are recognized on a straight-line basis over the period of service.

The Beneficiary interprets the term "Working Loop" to include any line from the moment the Beneficiary connects the line by assigning a particular telephone number to a specific customer until the Beneficiary disconnects the line and returns that telephone number to available inventory for assignment to a new customer. The Beneficiary determines the date upon which a customer's line will be disconnected pursuant to its disconnection policy.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Criteria

In the Glossary to 47 CFR Part 36, a working loop is defined as a revenue producing pair of wires, or its equivalent, between a customer's station and the central office from which the station is served.

Federal Communications Commission (FCC) Rule §54.307(a) provides that a competitive eligible telecommunications carrier ("CETC") may receive universal service support to the extent that the competitive eligible telecommunications carrier captures the

subscriber lines of an incumbent local exchange carrier (LEC) or serves new subscriber lines in the incumbent LEC's service area.

Under FCC Rule §54.307(b), in order to receive support, a competitive eligible telecommunications carrier must report to the Administrator the number of **working loops** it serves in a service area pursuant to the schedule set forth in paragraph (c) of this section. FCC Rule §54.307(b) defines working loops for CETC's as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service.

Effect

The Beneficiary provides wireless services on a month-to-month basis where the services are paid in advance. As the wireless service is prepaid, the line ceases to be revenue producing at the end of the prepaid period, and thus should not be included in the filings.

Cause

The Beneficiary interprets the term "Working Loop" to include any line from the moment the Beneficiary connects the line by assigning a particular telephone number to a specific customer until the Beneficiary disconnects the line and returns that telephone number to available inventory for assignment to a new customer. The Beneficiary determines the date upon which a customer's line will be disconnected pursuant to its disconnection policy.

Pursuant to the terms and conditions of the Beneficiary's service, each customer agrees that the Beneficiary has the right to place various limits upon the service in the 60 to 90 days preceding the disconnect date.

During the 60 to 90 days preceding the disconnect date, the Beneficiary considers these lines as "working loops" and includes them in line counts submitted in accordance with Federal Communications Commission ("FCC") Rule §54.307.

Monetary Impact on Support

[REDACTED]

Beneficiary Response

Please see enclosure.

Conclusion

We have evaluated the validity of the Beneficiary's response to the finding and we are in agreement with the Firm's finding. [REDACTED]

[REDACTED]

[REDACTED]

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**Beneficiary Response
May 20, 2011**

Coral Wireless, LLC, d/b/a Mobi PCS ("Coral"), hereby responds to the Independent Accountants' ("Deloitte") updated finding for the Report on Compliance Relating to High Cost Support Received by Coral Wireless LLC d/b/a Mobi PCS (HC-2008-126) for the Year Ended June 30, 2008 (the "Updated Report"). See Attachment 1. Coral strongly objects to:

1. The content and conclusions of the Updated Report;
2. The audit process followed by Deloitte and the Universal Service Administrative Company ("USAC") to reach the content and conclusions of the Updated Report; and
3. The description in USAC's letter dated April 21, 2011 to Barry Rinaldo, Chief Financial Officer of Coral Wireless d/b/a Mobi PCS, ("USAC Letter"), see Attachment 1, of the audit history and findings of the initial Report on Compliance Relating to High Cost Support Received by Coral Wireless LLC d/b/a Mobi PCS (HC-2008-126) for the Year Ended June 30, 2008 (the "Initial Report").

For the reasons set forth in this Response, a decision by Deloitte and USAC to finalize and publish the version of the Updated Report attached to the USAC letter would constitute a knowing and willful violation of federal law that would cause foreseeable and substantial harm to Coral.



Key Statutory and Regulatory Requirements that Govern the Audit

Federal law requires USAC to administer the universal service fund ("USF") consistent with the applicable:

- Federal statutes;
- Rules, orders and directives promulgated by the Federal Communications Commission ("FCC");
- Government and FCC accounting requirements; and
- Other regulations.

See, e.g., 47 U.S.C. 254; 47 C.F.R. §§ 54.702(b)-(n), 54.711, 54.715; Government Auditing Standards ("GAO Yellow Book" or "GAGAS"), July 2007 Revision; Memorandum of Understanding between the FCC and USAC, effective September 9, 2008. In administering the USF, USAC must also conduct its operations in a manner that enables the FCC to comply with all applicable federal statutes, including accounting requirements, on an ongoing basis. See e.g., 47 C.F.R. § 54.702(n).

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The FCC's rules explicitly prohibit USAC from interpreting unclear provisions of the statute or rules, or interpreting the intent of Congress. *See* 47 C.F.R. § 54.702(c). Where the Act or the FCC's rules are unclear, or do not address a particular situation, the rules explicitly mandate that USAC seek guidance from the FCC. *See id.*

The FCC's rules also explicitly prohibit USAC from making policy, or even advocating substantive policy provisions relating to universal service support mechanisms before the FCC. *See* 47 C.F.R. § 54.702(c)-(d). As such, USAC cannot, consistent with applicable law, adopt interpretations of unclear rules as a means for engaging in substantive policy advocacy before the FCC through the USAC decision appellate process. In light of this explicit restriction on USAC, independent auditors hired by USAC likewise cannot use the appellate process to advocate policy by unlawfully adopting interpretations of unclear rules.

The FCC's rules further require that audits of USF beneficiaries by USAC or any independent auditor hired by USAC be conducted in accordance with generally accepted government auditing standards. *See* 47 C.F.R. § 54.702(n). These standards include the GAGAS set forth in the GAO Yellow Book.

The ethical principles that guide the work of auditors who conduct audits in accordance with GAGAS are:

- the public interest;
- integrity;
- objectivity;
- proper use of government information, resources, and positions; and
- professional behavior.

With respect to integrity, the GAGAS make clear that “[i]ntegrity includes auditors’ conducting their work with an attitude that is *objective, fact-based, nonpartisan, and nonideological with regard to audited entities* and users of the auditors’ reports [C]ommunications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.” GAO Yellow Book, Section 2.08 (emphasis added). With respect to objectivity, the GAGAS make clear that “[o]bjectivity includes being *independent in fact and appearance* when providing audit and attestation engagements, *maintaining an attitude of impartiality, having intellectual honesty*” GAO Yellow Book, Section 2.10 (emphasis added).

GAGAS require both USAC and the independent auditor to be transparent and disclose all relevant facts and legal support for all proposed findings, particularly in light of the prohibition on interpretation of the law by USAC. The auditor must “obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the [audit] report.” GAO Yellow Book, Section 6.04(b). The auditor must, in the audit report, present:

- Sufficient, appropriate evidence to support the findings and conclusions; and
- Descriptions of limitations or uncertainties within the reliability or validity of evidence.

GAO Yellow Book, Sections 8.14 & 8.15. The auditor must also provide “a draft report with findings for review and comment by responsible officials of the audited entity and others [in

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order to help] the auditors develop a report that is *fair, complete, and objective.*” GAO Yellow Book, Section 6.45 (emphasis added). Accordingly, GAGAS require both USAC and the independent auditor to be transparent and disclose all relevant facts and legal support for all proposed findings, particularly in light of the prohibition on interpretation of the law by USAC.

If the audited entity’s comments are inconsistent or in conflict with the findings, conclusions or recommendations in the draft report, GAGAS require auditors to evaluate the validity of the audited entity’s comments and either:

- Explain in their report their reasons for disagreement with the audited entity; or
- Modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.

GAO Yellow Book, Section 6.49. *

The rules and GAGAS require an independent auditor to issue a [REDACTED] if the auditor would have to rely upon an unclear rule to support a proposed finding, because the FCC’s rules expressly prohibit USAC and independent auditors hired by USAC from interpreting any unclear rule -- even if the proposed interpretation would otherwise be perfectly reasonable. Consequently, where an interpretation of an unclear rule is currently pending before the FCC, and thus the FCC itself could apply the interpretation on a prospective basis only, an auditor cannot rely upon the interpretation to issue a finding of material non-compliance. An independent auditor who is being pressured by USAC or the FCC to issue an audit report that is inconsistent with the applicable law, including the GAGAS, has a legal and ethical duty to withdraw from the audit.

Background and History of this Audit

Initiation and Prosecution of the Audit

On December 30, 2008, Coral received notice from Deloitte that it had been engaged by USAC to examine the compliance of Coral, relative to Study Area Code No. 629002, with 47 C.F.R. Part 54, Subparts C and D of the FCC’s Rules and related Orders governing Universal Service Support for the High Cost Program (“HCP”) relative to disbursements of \$14,971,972 for telecommunication services made from the USF fund during the year ended June 30, 2008. See Attachment 2. In January 2009, Coral received and responded to information requests from Deloitte and continued to work with Deloitte personnel throughout February and March 2009.

On February 27, 2009, Brian Morris of Deloitte’s Audit and Risk Enterprises group requested additional information from Coral that only incumbent wireline carriers record and supply to USAC and the FCC: the information requested was not relevant for, or even gathered by, wireless carriers. See Attachments 3 and 4. On March 2, 2009, Peter Gose, Coral’s Director of Regulatory Affairs, held a WebEx teleconference to help Mr. Morris and other Deloitte auditors better understand the USF data reporting requirements and why certain information Deloitte had requested was not relevant for wireless carriers. During that teleconference, Coral also provided a detailed explanation of its line count methodology and why its conservative approach results in a significant underreporting of Coral total working lines. See Attachments 4 and 5.