

**TALKING POINTS
BIENNIAL INDEPENDENT AUDIT REQUIREMENT**

**MEETING WITH FCC
January 15, 2014**

Introduction

- Though it exceeds the \$5 million threshold, Smith Bagley, Inc. is a small company with fewer than 200 employees.
- SBI serves consumers in primarily tribal areas and near-reservation areas in Arizona, New Mexico, and Utah. Many residents live in extreme poverty and lack electricity and other basic services. Large numbers of customers live in areas without postal addressing.
- The company has an excellent record of compliance with Lifeline program rules.
- SBI has devoted hundreds of hours to responding to Lifeline audits, PQAs and IDVs, resulting in either no negative findings or only minor recovery amounts.

Review of Proper Scope and Methodology of Independent Audit Requirement

- Biennial Audits should focus on a *high-level review of internal company procedures and controls* regarding aspects of the Lifeline program that present the greatest risk to the program.
- Biennial Audits should be *complementary, not duplicative*, of existing audit and review procedures, including Beneficiary and Contributor Audit Program (“BCAP”), Payment Quality Assurance (“PQA”) reviews, and In-depth Data Validations (“IDV”).
- Biennial Audits should not overlap with the National Lifeline Accountability Database (“NLAD”), nor should carriers be required to produce nationwide customer lists that auditors can simply obtain from NLAD.
- The Biennial Audits should use sampling of customer data sufficient to test that the internal controls are functioning and effective.

Overview of FCC Biennial Audit Plan

- SBI appreciates that the FCC is engaged in a transparent process to develop the Biennial Audit Plan.
- Many aspects of the Audit Plan appropriately focus on a high-level review of internal company procedures and controls. Importantly, parts of the Audit Plan direct the examination of a sample of customers.
- However, as currently drafted, other aspects of the Audit Plan would largely duplicate existing audit mechanisms and unnecessarily burden Lifeline providers without providing a corresponding benefit.
- SBI has the following concerns, and suggests several changes to the Plan.

Concerns with the Draft Biennial Audit Plan

Unnecessarily Detailed Data Review

- SBI and other commenters are deeply concerned that the proposed scope of the Biennial Audits far exceeds the mandate of the FCC that such audits should focus on a *high-level review of internal company procedures and controls* regarding aspects of the Lifeline program that present the greatest risk to the program.
- Comprehensive review of all of a carrier's subscriber data for duplicates and other discrepancies is inconsistent with the scope of the Biennial Audit as directed by the Commission in the *Lifeline Reform Order* and would be unnecessarily burdensome without a corresponding benefit.
- The Plan should instead use data sampling methods so the auditor reviews a statistically significant subset of customers to evaluate the company's controls.
- The Biennial Audit should not be a "mega-audit" with detailed review of data from all of a company's SACs.

Comparison of Subscriber Data to Filed Forms Would Be Burdensome and Unhelpful

- The Biennial Audit should not attempt to "square" different data sources that inevitably will not match up (e.g., comparing Form 497 to Form 555).
- Instead of comparing customer lists to the absolute numbers reported on forms, the Biennial Audit should focus on the procedures and controls behind the reported information.

- Comparison of Form 555 subscriber count to Form 497 subscriber count will be an exercise in futility.
 - Reporting periods vary.
 - Subscribers included will vary.
 - Discrepancies will be inevitable – but immaterial.
- Comparison of Form 555 with list of subscribers that company attempted to re-certify during the audit period will also be an exercise in futility – for the same reasons as above.

Duplication of NLAD Function

- The audited company should not be required to compile a National Subscriber List since the NLAD will contain virtually identical information (although in a different format).
- By requiring review of the entire National Subscriber List for subscribers or households receiving multiple Lifeline discounts, the current draft of the Plan would duplicate the function of NLAD.
- The Biennial Audit should be conducted after NLAD has been fully implemented and allowed to operate for several months. If auditors will review samples, they should obtain the information from NLAD through USAC.

Audit Questionnaires Should Be Refocused

- Eliminate questions that concern information not within the knowledge of the company (e.g., processes used by state administrators).
- Eliminate questions that ask about systems and processes that are not required by the FCC's rules (e.g., formal fraud policy, whistleblower program, or formal Information Security policy).
- Eliminate subjective questions that will generate no useful information (e.g., "Is there appropriate assignment of responsibility of authority for reporting decisions?", and "Does management promote an environment of integrity and high values?")
- Retain questions that appropriately focus on company procedures and controls, including questions that focus on the control of processes and flow of information between and among corporate offices, stores, and other company locations to ensure sufficient controls and procedures on a company-wide level.
- Add questions that examine the high-level processes and procedures by which a company exchanges data with NLAD.

Modify the Audit Period

- Proposed audit period of November – April should be modified, e.g., considering Form 555 potentially involves customers who recertified during other times of the year.
- An audit period is not necessary for a nationwide review of controls and procedures.
- Any audit period adopted should be within a calendar year.

Confidentiality of Draft Audit Reports

- Draft Biennial Audit reports must be treated as confidential.
- The audited company should be given an opportunity to review and respond to draft audit findings before the draft audit report is submitted to USAC.

Use of NLAD “Flags”

- Audited companies must be allowed to avail themselves of the same “flags” used by NLAD (i.e., tribal and rural non-deliverable) to avoid unfair findings of duplicates based on non-standard addresses that may produce false matches.

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