



Federal Communications Commission Washington, D.C. 20554

August 21, 2021

Radha Sekar  
Chief Executive Officer  
Universal Service Administrative Company  
700 12<sup>th</sup> Street NW, Suite 900  
Washington, DC 20005

William P. Hegmann  
President and CEO  
National Exchange Carrier Association, Inc.  
60 Columbia Road  
Building A – 2<sup>nd</sup> Floor  
Morristown, NJ 07960

Re: 2018 Performance Audit of the Universal Service Fund High Cost Program – Interstate  
Common Line Support

Dear Ms. Sekar and Mr. Hegmann;

This letter delineates the roles and responsibilities of the Federal Communications Commission (FCC or Commission), the Universal Service Administrative Company (USAC), as the Universal Service Fund (USF) administrator, and the National Exchange Carrier Association (NECA), as agent for its member companies, with regard to process and oversight responsibilities for the Interstate Common Line Support (ICLS) program and its successor, the Connect America Fund Broadband Loop Support (CAF-BLS) program in response to recommendations 1.2 and 2.1 in the performance audit of the Universal Service Fund High Cost Program – Interstate Common Line Support, issued July 12, 2018.<sup>1</sup>

Both ICLS and CAF-BLS are part of the USF High Cost Support programs. The FCC, USAC and NECA have all undertaken significant efforts to address the findings of the 2018 ICLS/CAF-BLS performance audit regarding the need to mitigate any conflict of interest that exists between NECA and eligible telecommunications carriers and will review and update the risk analysis and audit procedures as necessary to ensure that the programs are operating efficiently and effectively.

Accordingly, the key process and oversight roles and responsibilities will be as follows:<sup>2</sup>

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<sup>1</sup> The audit report can be found at <https://www.fcc.gov/inspector-general/reports/audit>

<sup>2</sup> To the extent that the FCC, USAC and NECA have already instituted the processes described below, they shall continue to do so.

## **Federal Communications Commission**

The Commission has ongoing oversight of all USF programs. It will execute this oversight for the ICLS and CAF-BLS programs through direct and regular coordination with USAC including (1) annual review and approval of USAC Beneficiary and Contributor Audit Program (BCAP) procedures and plans; (2) annual review and approval of USAC's assessment of the risk of improper payments in the ICLS and CAF-BLS programs as well as any potential Payment Quality Assurance (PQA) procedures and plans that may result based on those risk assessments; (3) broadband deployment monitoring, reporting, and verification/audit; and (4) an FCC and USAC monthly staff meeting to discuss various High Cost audits. BCAP will include ongoing audits for the ICLS and CAF-BLS programs; in addition, PQA assessments will occur for the ICLS and CAF-BLS programs as necessary based on USAC's annual assessment of the risk of improper payments in these programs.

## **Universal Service Administrative Company**

The USAC High Cost Division will be responsible for the collection of ICLS data from beneficiaries, calculating High Cost Program support, and applying policies and procedures for the proper administration of ICLS and its successor CAF-BLS<sup>3</sup> in accordance with the applicable FCC rules, regulations and related High Cost Program requirements, processes and reviews.

The USAC High Cost Division will perform the following processes and reviews in the administration of CAF-BLS:

- Audits and Assessments
  - USAC's Audit and Assurance Division (AAD) BCAP will audit High Cost Program beneficiaries that receive USF disbursements, including disbursements of CAF-BLS. The purpose of the audits is to determine whether beneficiaries complied with the FCC's High Cost Program rules. For audits of CAF-BLS, AAD will recalculate the support disbursed to the beneficiaries to determine the accuracy of the disbursements and reviews the underlying documentation that corroborates the information the beneficiaries reported on the FCC Form 507, FCC Form 508, and FCC Form 509 to ensure that common line costs and revenue data reported on those forms are accurate.
  - AAD will receive NECA's pooling procedures for the common line pool and traffic sensitive pool upon request. During audits, NECA will routinely provide to AAD documentation for the beneficiary carrier that is prepared by NECA and provided on the beneficiary's behalf. AAD will not audit NECA's pooling procedures, however when there is an inconsistency between the data reported for High Cost Program purposes and the beneficiaries' supporting documentation, AAD may use the pooling procedures to understand how beneficiaries report their data to NECA.
  - USAC's High Cost Program team will conduct annual trend analysis of beneficiary true-up data submissions, comparing projected annual cost and

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<sup>3</sup> Because CAF-BLS replaced ICLS in 2016, CAF-BLS is used throughout the remainder of this document.

revenue data (Form 508) vs actual annual cost and revenue data (Form 509) to determine outliers and requests explanations of variances of 20% or more between projection and actuals.

- Processes performed by USAC
  - Collect FCC Form 507, FCC Form 508 and FCC Form 509 data (CAF-BLS form data) from beneficiaries:
    - Annual projection and true-up data will be collected for NECA member companies through the NECA secure data (SFTP) portal.
    - Annual projection and true-up data will be collected for non-NECA member companies through submissions directly to USAC.
    - Quarterly line count data will be collected for NECA member companies through the NECA secure data (SFTP) portal.
    - Quarterly line count data will be collected for non-NECA member companies through submissions directly to USAC.
  - Process CAF-BLS form data to calculate the CAF-BLS projection and true-up support amounts.
  - Apply the Budget Control Mechanism and \$225 Line Cap constraints on CAF-BLS disbursements.
  - Disburse CAF-BLS support to beneficiaries on a monthly basis.

### **National Exchange Carrier Association**

USAC, not NECA, is the administrator of the Universal Service Fund and the primary reason for NECA's processes, including its Cost Study Validation and Review Process (CSV RP) is to ensure its tariffs and pools are compliant with FCC directives. NECA processes provide an examination/upfront review of data prior to that data being submitted to USAC for CAF-BLS purposes, by NECA as an agent for member companies designating NECA to do so.

Currently, NECA serves as agent for around 420 NECA member companies that participate in the common line pool. As an agent, NECA compiles and reports their information to USAC for CAF-BLS purposes. There are approximately 10 non-NECA pool member companies that compile and self-report information to USAC for these purposes.

The assessments/reviews and processes that NECA performs in the administration of its tariff and pools, but which also serve as an upfront review of CAF-BLS data before it is submitted to USAC, are as follows:

- Assessments/Reviews
  - Conduct year to year trend analysis of member company true-up data submissions to determine outliers and request documentation, where appropriate.
  - Implement a robust CSV RP for use in ensuring compliance with FCC Rules, as well as Commission orders, interpretations, clarifications and directives.
  - Maintain a risk-based approach in its CSV RP, including the selection of member companies for both priority and in-depth reviews. Beyond the general

review, which is performed on all cost studies submitted, NECA will initiate priority reviews of member companies when current year revenue requirement for special access non-DSL and common line have exceeded risk threshold levels of \$25,000 and 10% over the prior year.

- Use an in-depth cost study validation tool that uses data from NECA's cost study database, financial reconciliation database and the allocator to target areas of risk. It further summarizes information regarding priority reviews, expenses, non-regulated adjustments and changes in the revenue requirement process to help select carriers for an in-depth review.
  - NECA's independent auditor will include procedures to test NECA's CSVRP in its annual SOC audit that is filed with the Commission to comply with the requirements of section 69.605 of the Commission's rules. One such test involves the selection and review of a sample of cost study validations performed by NECA, including the relevant supporting documentation, as a basis for determining the CSVRP was performed properly.<sup>4</sup>
- Processes performed by NECA
    - NECA, as an agent for its member companies, will provide data and certifications to USAC, as follows:
      - Populate USAC's Excel template with required data, ensuring revenue requirement and revenue data for each company is populated.
      - Ensure that the Excel data is accurate.
      - Ensure that all expected companies are represented in data file
      - Send each company its data for review and certification.
      - Ensure that a Form 508/509 certification is received from each company for whom NECA is filing as its agent.
      - Forward the company certifications to USAC.
      - Sign NECA's Form 508/509 letter and authorized agent certification
      - Upload support data and all individual carrier certifications to USAC's SFTP site.
    - NECA will perform other tasks throughout the year, including but not limited to the list below, as part of its pooling and ratemaking responsibilities. The processes related to these tasks have the primary goal of ensuring accuracy of the data for pool settlement processes and compliance with FCC rules.<sup>5</sup> As previously noted, these same processes also provide an up-front check of CAF-BLS related data before it is filed with USAC for it to perform its official administrative responsibilities.
      - Collect the following data from the NECA member companies on a monthly and/or annual basis:
        - Cost study data (annual).
        - Revenue data (monthly).
        - Access line count data (monthly).

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<sup>4</sup> This audit should follow-up on the seven CSVRP findings from the 2018 OIG audit report.

<sup>5</sup> The NECA processes described herein apply only to NECA member companies and are not intended to be an exhaustive list. Additionally, some of these NECA processes have no connection to ICLS/CAF-BLS calculations.

- End User revenue data (monthly).
- Minutes of use (monthly).
- Analyze and processes beneficiary data in NECA's internal system.
- Develop the Average Schedule Revenue Requirement Formula to be submitted to the FCC for approval.
- Develop the Common Line Revenue Requirement and Consumer Broadband-only Loop Revenue Requirement using NECA's internal allocator system.
- Administer the Common Line and Traffic Sensitive Pools.
- Collect payments from member companies that must pay into the pool based upon formulas built into NECA's pool administration system.
- Develop Interstate Access Tariff rates (Tariff 5) and submits to the FCC.
- Review cost studies submitted on an annual basis and/or quarterly basis for those member companies that submit cost studies.
- Perform trend analyses on current cost study data compared to prior year data to identify unexpected changes.
- Request additional supporting documentation from the member company to verify the accuracy of the amounts reported to NECA for pool settlement purposes.
- Request that the member company adjust its cost study amounts reported to ensure compliance with the program rules when adequate documentation is not provided by such company.
- Perform various reasonableness tests and trend analyses to identify data anomalies and to confirm the accuracy of the data submitted.

Please let me know if you have any questions about this letter.

Sincerely,

Mark Stephens  
Managing Director

Cc: Regina McNeil  
Senior Vice President and General Counsel  
National Exchange Carrier Association, Inc.