



## **Baum Shelter: Surviving the Compliance Audit Apocalypse**

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## **Baum Shelter: Surviving the Compliance Audit Apocalypse**

- Agenda
  - Who
  - What
  - Where
  - When
  - Why
  - How do we survive?
  - Risks/Rewards of Implementing Survival Strategies




## Who

- Regulatory Authorities at the Federal and State Levels
  - FCC
    - Enforcement Bureau
    - Strike Force
  - USAC
    - Beneficiary and Contributor Audit Program (BCAP)
      - (similar to OIG audits from 3-4 years ago)
    - Payment Quality Assessment (PQA)
  - NECA
    - Cost Study Reviews
    - Revenue Reporting Reviews
  - State Commissions
    - Eligible Telecommunications Carrier (ETC) Certifications
    - State USF Reviews




## What

- Any information related to regulated operations
  - Includes allocation of costs to non-regulated operations
  - Includes methodologies of allocating costs
- Documentation that supports any data submitted to regulatory agencies
  - Cost Studies
    - Revenue Reporting
    - ETC Certifications
    - Line Counts
- Data Requests can include any data that supports payments or receipts for the period under audit
  - Typically data will be 4-6 years old
  - Supporting data for assets may go back much further




## What

- Sample of Specific Data Requests
  - Beneficiary and Contributor Audit Program (BCAP)
    - Detailed General Ledger of Regulated Operations
    - Organization Chart – Affiliated Entities and Employees
    - Audit Report
    - Network Diagram
    - Filings made to other Regulatory Agencies
    - Information supporting compliance with rules in order to be designated as an ETC
    - Billing reports supporting line counts and revenues billed
    - Continuing Property Records (CPRs)
    - Inventory listings and physical count sheets




## What

- Sample of Specific Data Requests (cont)
  - Beneficiary and Contributor Audit Program (BCAP)
    - Listing of all employees
    - Expense matrix
    - Expense clearing details
    - Details of affiliate transactions and agreements
    - Labor distribution reports
    - Cost Allocation Manual
    - Cost apportionment schedule




## What

- Sample of Specific Data Requests (cont)
  - Beneficiary and Contributor Audit Program (BCAP)
    - Final Cost Studies
    - Cost Study Adjustments
    - Categorization of Plant
    - Other information supporting the cost studies
    - Support for Internal Controls
    - Based on review of General Ledger or CPRs, the auditors will frequently request invoices or other documentation to support an asset, an expense, or a revenue item.
    - Based on review of billing reports, the auditors will frequently request documentation to support specifics shown on the reports



## What

- Sample of Specific Data Requests (cont)
  - Examples of requests related to other audits
    - Special Access circuits listing and/or billings
    - Support for Lifeline reporting and revenue
    - Tax calculations




## Where

- Initial Comprehensive Data Request sent to company
- On site visit at company offices after response to initial data request


## When

- Any time
- BCAP audits recently sent to companies
- PQA reviews occurred over the last several years
- NECA reviews done annually for select companies
- ETC certification filings done annually for all companies
- State Commission audits done periodically




## Why

- Money, Money, Money
  - Politics of USF (both Federal and State)
    - Waste, fraud, and abuse
    - Reduce and redistribute funding
  - Increasing costs and rates
    - DSL
    - Special Access




## How Do We Survive?

- Understand the goals of the process
- Prepare
- Retain information
- Understand the “red flags”




## How Do We Survive?

- Understand the goals of the process
  - Identify savings to USF funds
  - Reduce regulated costs to be recovered
  - Compliance with rules
- Prepare
  - Review list of data requests (see handout)
  - Make sure supporting documentation is available
  - Designate person(s) responsible for having documentation
  - For documentation that is not readily available, consider options for response




## How Do We Survive?

- Retain information
  - Monthly billing information for 7 years
  - Invoices and other supporting documentation for expenses for 7 years
  - Invoices and other supporting documentation for assets until asset is retired
- Understand the “red flags”
  - Supporting documentation does not support information reported
    - Line counts
    - Capitalized amounts
    - CPRs
    - Expense amounts
    - Cost study treatment is correct




## How Do We Survive?

- Understand the “red flags” (continued)
  - Costs are deemed excessive
  - Supporting documentation/methodologies for cost allocations is deemed unacceptable
    - Non-regulated allocations
    - Allocation of regulated costs



## Risks/Rewards of Implementing Survival Strategies


- Reward – Confidence in compliance with rules
- Risk – Concerned about compliance with rules
- Reward – Being prepared for an audit will likely make it go smoother
- Risk – May not get audited
- Reward – If decision is made not to prepare and an audit never occurs, it saves employee time and consultant cost
- Risk – An audit, if it happens, will likely consume significant employee (and consultant) time



## Risks/Rewards of Implementing Survival Strategies


- Reward – Preparing for information that may not be readily available
- Risk – Responding to audit questions regarding unavailable information
- Reward – Verifying that source data matches information reported
- Risk – Finding that reported information does not agree to source data during an audit






## Risks/Rewards of Implementing Survival Strategies

- Reward – Retaining high cost structure and recovery
- Risk – Costs may be disallowed in an audit causing decline in revenue
- Reward – Cost allocations are supportable/reasonable
- Risk – Auditors deem allocations unreasonable and impose their allocations
- Reward – Cost Study treatment
- Risk – Audit finds cost study treatment unacceptable



## Risks/Rewards of Implementing Survival Strategies

- Reward – Possible exit NECA pools means no more NECA reviews and other possible benefits
- Risk – Pooling of costs and NECA settlements may be favorable



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**Questions?**