Performance Audit of the Federal Communications Commission's

Implementation of Reforms to the Universal Service Fund, High Cost Program

FINAL REPORT

Audit Assignment No. 15-AUD-04-04

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Conducted for:
Federal Communications Commission
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Executive Summary

In 2011, the Federal Communications Commission (FCC) issued an Order (FCC 11-161) to comprehensively reform and modernize the Universal Service Fund, High Cost Program; and Inter-Carrier Compensation (ICC) systems (Transformation Order, or the Order). In the Order, the FCC expanded its Universal Service Fund (USF) programs to promote the universal availability of communications services; and to provide funding for broadband, in addition to voice service. Regis & Associates, PC (R&A) was engaged by the FCC Office of the Inspector General (OIG) to conduct a performance audit of FCC's implementation of the Transformation Order. The objectives of the audit were to: 1) prepare a list of all of the mandates identified in the Transformation Order; 2) determine the entity, or entities, responsible for implementing each mandate, and the timeline for completion; 3) determine whether the FCC is adequately disclosing the implementation status of the mandates; and 4) determine whether the process of implementing the mandates could be improved.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. The scope of the audit included an evaluation of FCC's implementation of the Transformation Order mandates from the effective date of the Order through the end of fieldwork on January 29, 2016.

During the audit we worked with the FCC's bureaus to develop a comprehensive matrix of the individual mandates that constitute the Transformation Order, and grouped the mandates by type and implementing entity. This process identified 52 mandates, the entity responsible for implementing each mandate, and the implementation status. The Wireline Competition Bureau (WCB) and the Wireless Telecommunications Bureau (WTB) are responsible for ensuring the mandates are implemented. We selected for testing, 15 mandates that we considered to be significant and assessed whether the implementation status was accurately reported to stakeholders by WCB and WTB.

Our audit revealed that the FCC has made significant progress in implementing the requirements of the Transformation Order, and management's reporting to stakeholders was generally accurate and complete. However, we identified two findings that represent areas for improvement in the FCC's implementation of the Order, as discussed in the Findings and Recommendation section of this report. First, the FCC does not have a comprehensive project management system for the implementation of the Transformation Order. A project management system would improve tracking and reporting of the status of the implementation of the Transformation Order mandates. This report recommends attributes that such a project management system should include. Second, management could more clearly report the status of the implementation of two mandates, to improve the FCC's accountability and transparency regarding the Order. The first mandate, which was to implement Connect America Fund (CAF) Phase I Incremental Support, was assigned to WCB. The second mandate, which was to conduct annual wireless rate surveys, was assigned to WTB. This report includes a recommendation to address these findings.

In its response to the draft audit report, FCC's management generally concurs with both findings and recommendations and includes additional details regarding why the findings occurred and actions that management has already taken to address them. Management's response is included in its entirety as Appendix B.

Background

The Transformation Order, adopted on October 27, 2011, is a comprehensive reform initiative to expand access to high-speed internet and voice services nationwide; and benefits consumers, by accelerating deployment of modern communications networks. Implementation of the Order will transform the FCC's outdated universal service and inter-carrier compensations systems into a new Connect America Fund (CAF). Existing universal service and inter-carrier compensation systems were based on decades-old assumptions that do not reflect today's networks, the evolving nature of communications services, or the current competitive landscape. As a result, the legacy systems were ill-equipped to address the universal service challenges raised by broadband, mobility, and the transition to Internet Protocol (IP) networks. The CAF will rely on incentive-based, market-driven policies, including competitive bidding, to more efficiently and effectively distribute universal service funds.

The Commission established the following goals for the Universal Service Fund, in the Transformation Order:

1. Preserve and advance voice service;
2. Ensure universal availability of voice and broadband to homes, businesses, and community anchor institutions;
3. Ensure the availability of mobile, voice, and broadband services where Americans live, work, or travel;
4. Ensure reasonably comparable rates in all regions of the nation for broadband and voice service; and
5. Minimize universal contribution burden on consumers and businesses.

The Transformation Order outlines the following principles:

Modernize *USF and ICC for Broadband*: Modernize and refocus USF and ICC to make affordable broadband available to all Americans; and accelerate the transition from circuit-switched to IP networks, with voice ultimately being one of many applications running over fixed and mobile broadband networks.

Fiscal Responsibility: Control the size of USF, as it transitions to support broadband, including reducing waste and inefficiency. American consumers and businesses ultimately pay for USF; and if it grows too large, this contribution burden may undermine the benefits of the program, by discouraging adoption of communication services.

Accountability: Require accountability from companies receiving support, to ensure that public investments are used wisely to deliver intended results. Government must also be accountable for the administration of USF, including setting clear goals and performance metrics for the program.

Incentive-Based Policies: Transition to incentive-based policies that encourage technologies and services that maximize the value of scarce program resources and the benefits to all consumers.

Objectives, Scope, and Methodology

The objectives of this performance audit were to: 1) prepare a list of all of the mandates required by the Transformation Order; 2) determine the entity, or entities, responsible for implementing each mandate, and the timeline for completion; 3) determine whether the FCC is adequately disclosing the implementation status of the mandates; and 4) determine whether the process of implementing the mandates could be improved.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards, contained in *Government Auditing Standards* (Yellow Book), issued by the Comptroller General of the United States, December 2011 revision. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit included an examination of the implementation of the Transformation Order mandates, from its adoption through the end of R&A's field work on January 29, 2016. As required by the standards, our audit procedures were designed to consider the risks; and identify situations that could be indicative of fraud, waste, and abuse of the fund. However, the scope of our audit did not include an evaluation, sufficient in depth, to form a conclusive opinion on whether the fund is being protected from fraud, waste, and abuse, for the mandates tested.

Our methodology included developing a matrix of the individual requirements or mandates in the Transformation Order, grouped by type and implementing entity. We identified the entity responsible for implementing each of the 52 mandates; and listed the mandates' implementation status, as reported by the FCC, as of the end of our audit fieldwork. During the testing phase, we examined 15 mandates that we determined were the most significant. This report presents our analysis and assessment of the FCC's reporting on the implementation status of these mandates. See Appendix A for a detailed discussion of our methodology for developing the matrix, and the results of the significant mandates tested.

Audit Results

The FCC has made significant progress in implementing the requirements of the Transformation Order, and management's reporting to stakeholders was generally accurate and complete. However, we identified two findings that represent areas for improvement in the FCC's implementation of the Order, as discussed in the Findings and Recommendation section of this report.

Findings and Recommendations

Finding 1. A Comprehensive Project Management System is Needed for Overseeing the Implementation of the Transformation Order

CONDITION:

The FCC does not have a comprehensive project management system for tracking and reporting the progress made in implementing the Transformation Order and subsequent clarifying orders. Although the FCC's management made significant progress in implementing the mandates, they do not have a comprehensive system to oversee all facets of the implementation of the Order and applicable mandates. The Order covers many areas, including the legacy high cost support mechanisms, the new Connect America program, and the inter-carrier compensation system. In total, there are 1,412 paragraphs in the Order. Although many of the mandates are assigned to a specific entity, with specific directions governing implementation and/or oversight; other mandates are stated in general terms. The bureaus were delegated authority to determine how and when to implement the mandates. Because of the complexity of the Order, a project management system is needed.

WTB, WCB, and the Office of the Managing Director (OMD) have tools for assessing the performance of the various parties charged with implementing the reforms, and monitoring whether critical timelines are being met. USAC performs reviews and audits of beneficiaries of the High Cost Program (HCP). WTB and WCB work with OMD to implement corrective actions, where appropriate. In implementing the reforms, the FCC focused on the overall goals, but did not address each requirement and mandate of the Order. We noted that the processes were not comprehensive in scope, and were not adequate in that they did not address all of the mandates and facets of the Transformation Order.

The establishment of a comprehensive project management system would provide a cohesive management structure under the existing implementation methodology that identifies key roles and responsibilities of key individuals; timelines for the beginning and ending of critical tasks; task inter-dependencies; task milestones; critical outcomes; a quality control function; and performance measures for each significant mandate or group of mandates. Additionally, it would document reporting guidelines for each person or entity responsible for the implementation of a mandate, or group of mandates. Such guidelines would provide appropriate oversight of the activities and outcomes of all implementation tasks.

We also noted that there is no established methodology for identifying implementation obstacles, challenges, or improvements; and applying the lessons learned as the implementation activities progress. The implementation of a comprehensive project management system would provide an integrated framework for the management and oversight of an expansive effort, such as the implementation of the Transformation Order, with its far-reaching reform initiatives. Moreover, such a system would provide management with mechanisms for assessing the performance of the various parties that are implementing the reforms; monitor whether critical timelines are being met; and also identify and implement corrective actions, where appropriate. The system would also provide management with a comprehensive reporting mechanism for assessing the effectiveness of the reforms. As required by the Government Performance and Results Act of 1993, an assessment of the reforms will enable the FCC to determine whether program funds are used for intended purposes, and accomplishing the intended results.

CRITERIA:

GAO's *Standards for Internal Control in the Federal Government* (Green Book), GAO-14-704G, provides clear guidance on internal controls for effective and efficient operations. Because the FCC's lack of a comprehensive project management system reduced operational effectiveness and efficiency, the Green Book standards provide relevant criteria for the finding.

Page 19 of the standards states that:

> "Operations objectives relate to program operations that achieve an entity's mission. An entity's mission may be defined in a strategic plan. Such plans set the goals and objectives for an entity along with the effective and efficient operations necessary to fulfill those objectives. Effective operations produce the intended results from operational processes, while efficient operations do so in a manner that minimizes the waste of resources."

In addition, page 20 states that:

> "Management can set, from the objectives, related sub-objectives for units within the organizational structure. By linking objectives throughout the entity to the mission, management improves the effectiveness and efficiency of program operations in achieving the mission".

A project management system would also help the FCC remediate the findings of needed accountability and transparency cited in the GAO report, *FCC Should Improve the Accountability and Transparency of High-Cost Program Funding*, dated July 22, 2014. GAO's *Government Auditing Standards* describe the need for accountability and transparency in the government:

> 1.01 The concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program.
>
> 1.02 As reflected in applicable laws, regulations, agreements, and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. Legislators, oversight bodies, those charged with governance, and the public need to know whether (1) management and officials manage government resources and use their authority properly and in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are provided effectively, efficiently, economically, ethically, and equitably.

CAUSE:

FCC management concluded that it did not need a project management system, and therefore, did not dedicate resources for this purpose. They stated that it considered adding a project manager to assist with the implementation of the Transformation Order, but did not have resources to sustain the project manager position. Further, FCC management stated that it already had project management processes in place as of the effective date of the Order, and those processes were used to implement the Transformation Order. While these processes might have been useful in the past, they were not specifically designed to implement the Transformation Order.

EFFECT:

Due to the lack of a project management system, FCC management did not track and report the implementation of the mandates in sufficient detail, including milestones, challenges, obstacles, and resolutions. The components mentioned above are critical to assessing the progress of the implementation of the Transformation Order. The absence of a comprehensive project management system results in reduced efficiency and effectiveness in the implementation of the Transformation Order, which diminishes the FCC's ability to identify performance challenges as they arise, and institute and oversee corrective actions.

Additionally, the lack of a comprehensive project management system has resulted in limited reporting capabilities. The FCC's current processes do not allow them to address all facets of the Order. For example, the Mobile Wireless Competition Report publishes rates for the four largest wireless providers in the U.S., but does not address the mandate for a national survey to determine reasonably comparable rates. Additionally, the FCC's processes did not address or report the implementing bureau's decision not to implement this mandate. (See Finding 2). Consequently, these limitations may impair management's ability to report the intended reforms to interested third parties and stakeholders, including the general public, telecommunications carriers, and industry associations.

RECOMMENDATION:

1. We recommend that the FCC develop a project management system for implementing the Transformation Order mandates, to include the following tracking and reporting attributes:

    (a) identifying key roles and responsibilities of key individuals, timelines for the beginning and ending of critical tasks, task inter-dependencies, milestones, critical outcomes, a quality control function, and performance measures for each significant mandate; and

    (b) reporting guidelines for each person or entity responsible for the implementation of a mandate; methods for identifying challenges and best practices; a process for applying the lessons learned, going forward; and to facilitate reporting to stakeholders.

FCC MANAGEMENT'S RESPONSE (SUMMARY):

Management has begun efforts that should lead to the implementation a formal project management system for tracking and reporting on the progress made in implementing the Transformation Order and subsequent clarifying orders. Management has been working with USAC to implement processes that will include tracking and reporting attributes, such as defined responsibilities, critical timelines, and corrective actions.

Management's response is included in its entirety as Appendix B to the report.

AUDITOR'S COMMENTS:

We commend management for its initial efforts to implement a formal project management system to improve tracking and reporting the activities related to the reforms. The system should include all of the Transformation Order mandates still in process, whether delegated to USAC or other entities, and well as reform orders issued subsequently. If adequately implemented, this corrective action should remediate the finding. FCC OIG may review the implementation of the system at a future date.

Finding 2. The Implementation Status of Some Mandates Could be Better Reported

CONDITION:

We found that the FCC's reported implementation status for two of the significant mandates tested should be clarified to more fully and accurately describe their progress toward completing various milestones. One mandate, to implement CAF I Incremental Support, was assigned to WCB. The other mandate, to conduct annual wireless rate surveys, was assigned to WTB. To improve accountability and transparency, the bureaus should have reported that they did not fully implement all aspects of these two mandates and the reasons for not doing so.

CAF I Incremental Support
WCB reported that validation of CAF, Phase I, Incremental support for broadband build-out was in progress. However, based on discussions with OMD, WCB, and USAC; and the examination of reporting and monitoring documentation, the audit determined that a process for validating CAF Incremental Support had not been completed. We noted that WCB did not ensure that USAC had a process in place to (1) monitor and validate the status of the build-out of broadband; and (2) verify whether build-out deployment obligations had been fulfilled by Price-Cap carriers. Furthermore, WCB had not created a policy, or provided instructions to USAC, to address potential performance defaults by carriers that fail to complete the extent of the build-out as committed, and within the required specifications. Therefore, WCB should have reported that it could not verify whether the carriers completed the build-out, as required by the Transformation Order.

Annual Wireless Rate Survey
We also noted that WTB did not report that it had not (1) conducted annual surveys of the mobile wireless voice and broadband rates, or (2) set benchmarks for reasonably comparable rates, both of which are mandated by the Order. The survey's purpose is to determine whether the mandate requiring that the rates of carriers receiving High Cost Support for rural areas be reasonably comparable to those in urban areas is being achieved. WTB did not consider the language in the Transformation Order (to conduct an annual survey) to be a requirement of the Order. Further inquiries of WTB revealed that it conducts annual national reviews of wireless rates, in lieu of conducting a national survey. These reviews in recent years, published in the Mobile Wireless Competition Report, showed that carriers offered nationwide pricing plans that were available throughout their service areas. Therefore, WTB concluded that mobile prices offered in rural areas are reasonably comparable to those offered in urban areas. WTB responded that because service provider pricing does not vary between urban and rural markets, such a survey would not provide meaningful comparisons or benchmarks. While we do not refute WTB's claim, we believe that their reasons for not conducting annual surveys or setting benchmarks should be disclosed to stakeholders.

CRITERIA:

The Transformation Order directs the entities to undertake a myriad of activities, and comply with various regulatory requirements, in order to accomplish the goals identified therein. Further, the bureaus should improve their implementation of the Transformation Order so that there is increased accountability and transparency. GAO's *Government Auditing Standards* describe the need for accountability and transparency in the government, as noted in the criteria section of finding 1.

The Transformation Order mandates the implementation of CAF I, incremental support (FCC 11-161, Paragraph 147), as follows:

> "Carriers must complete deployment to no fewer than two-thirds of the required number of locations within two years, and all required locations within three years, after filing their notices of acceptance..."

Based on the monitoring requirements in the Transformation Order (FCC 11-161, Paragraph 628), USAC is also required to complete the following:

> "We direct USAC to review and revise the Beneficiary Compliance Audit Program (BCAP) and Payment Quality Assurance (PQA) programs to take into account the changes adopted in this Order. We direct USAC to annually assess compliance with the new requirements established for recipients, including for recipients of CAF Phase I and Phase II. For CAF Phase I, we establish above a requirement that companies have completed build-out to two-thirds of the requisite number of locations within two years. We direct USAC to assess compliance with this requirement for each holding company that receives CAF Phase I funds. ETCs that receive CAF Phase I funding should ensure that their underlying books and records support the assertion that assets necessary to offer broadband service have been placed in service in the requisite number of locations. We also direct USAC to test the accuracy of certifications made pursuant to our new reporting requirements. Any oversight program to assess compliance should be designed to ensure that management is reporting accurately to the Commission, USAC, and the relevant state commission, relevant authority in a U.S. Territory, or Tribal government, as appropriate, and should be designed to test some of the underlying data that forms the basis for management's certification of compliance with various requirements. This list is not intended to be exhaustive, but rather illustrative of the modifications that USAC should make to its existing oversight activities. We direct USAC to submit a report to WCB, WTB, and OMD within 60 days of release of this Order proposing changes to the BCAP and PQA programs consistent with this Order."

Regarding the annual wireless rate survey, the Order mandates the annual survey of voice and broadband rates (FCC 11-161, Paragraphs 85, 113 and 114), as follows:

> "Because the data used to calculate the national average price for voice service is out of date, we direct the WCB and the WTB to develop and conduct an annual survey of voice rates in order to compare urban voice rates to the rural voice rates that Eligible Telecommunications Carriers (ETCs) will be reporting to us. The results of this survey will be published annually. For purposes of conducting the survey, the Bureaus should develop a methodology to survey a representative sample of facilities-based fixed voice service providers taking into account the relative categories of fixed voice providers as determined in the most recent FCC Form 477 data collection."

> "…We have never compared broadband rates for purposes of section 254(b)(3), and therefore we direct the Bureaus to develop a specific methodology for defining that reasonable range, taking into account that retail broadband service is not rate regulated and that retail offerings may be defined by price, speed, usage limits, if any, and other elements."
>
> "We also delegate to the Wireline Competition Bureau and Wireless Telecommunications Bureau the authority to conduct an annual survey of urban broadband rates, if necessary, in order to derive a national range of rates for broadband service. We do not currently have sufficient data to establish such a range for broadband pricing, and are unaware of any adequate third-party sources of data for the relevant levels of service to be compared. We therefore delegate authority to the Bureaus to determine the appropriate components of such a survey. By conducting our own survey, we believe we will be able to tailor the data specifically to our need to satisfy our statutory obligation."

CAUSE:

WCB and USAC have not finalized a process to validate the CAF Phase I, Incremental Support build-outs. In fact, the validation process was not completed prior to the Price-Cap Carriers' deadline for completing the two-thirds build-out for Round 1.

Additionally, WCB's process for distributing and managing CAF incremental support did not include an oversight mechanism. For instance, the process did not have provisions for recourse in the event of performance defaults, which result from carriers not completing the mandated build-out, and/or not meeting the broadband specifications.

WTB has communicated, orally and in writing, that the language in the Transformation Order requiring WTB to conduct an annual urban rate survey is not clear. WTB interprets this language as providing it authority to decide whether or not to conduct an annual survey, because the "delegate authority" language merely grants the bureaus authority to take the steps specified, rather than mandating those steps; and because "including by conducting an annual survey" language indicates that a survey is just one means for the bureau to pursue the objectives of the mandate.

EFFECT:

Because of the conditions noted above, the FCC could have improved its accountability and transparency in the implementation of the Transformation Order, by more clearly describing tasks that had not been completed for two of the mandates, and providing an explanation as to why they were not done. Specifically, (1) WCB had not disclosed that the absence of a validation and monitoring process exposes the CAF to the risk that the carrier may not be in compliance with the build-out requirements of the Order; and (2) WTB had not disclosed, or explained, that it opted not to conduct annual rate surveys or set benchmarks.

RECOMMENDATION:

2. We recommend that the FCC:

a. more clearly report the implementation status of the two Transformation Order mandates noted above; and

b. implement processes and oversight measures to ensure that the reported implementation status of all of the mandates is current and accurate, as part of its overall project management system.

FCC MANAGEMENT'S RESPONSE (SUMMARY):

WCB agreed that the process of validating the build-out of the CAF Phase I Incremental Support was not complete at the time the audit field work ended in January 2016. WCB and USAC have since finalized the validation process (in June 2016). The deadline for carriers to complete the first round of the build out was July 2015, although they were not required to certify completion until the July 2016 due date of the Form 481. Therefore, WCB asserted that it was premature to assess compliance with the build-out until July 2016.

To clarify the completion status of the Annual Wireless Rate Survey mandate, WTB will include language in the Mobile Competition Report to describe how the objectives set out in the USF/ICC Transformation Order for reasonable comparable wireless rates were met.

Management's response is included in its entirety as Appendix B to the report.

AUDITOR'S COMMENTS:

We appreciate management's explanation of the build-out validation activities undertaken after our audit period. Although WCB considered it premature to assess compliance prior to July 2016, we concluded that validation should have begun as soon as possible after the carrier's July 2015 build-out deadline. This issue will be reviewed in more depth as the subject of the CAF Phase I Incremental Support audit that is currently underway. For purposes of this audit, the implementation status of the two mandates noted in the finding is more clearly reported.

We note that management's response did not address the second part of the recommendation included as 2.b. above

Appendix A – Methodology for the Development of the Mandates Matrix, and Results of the Significant Mandates Tested

During the audit, we worked with the FCC's bureaus to develop a comprehensive matrix of the individual mandates that constitute the Transformation Order, grouped by type and implementing entity. This process identified 52 mandates to reform the universal service and inter-carrier compensation systems. In these mandates, the FCC Commissioners direct the FCC, through the WCB and the WTB, to reform the Universal Service High Cost Program. These mandates were compiled in a data collection matrix, and were appropriately cross-referenced to the appropriate paragraph in the Transformation Order. We then compared and reconciled them to our independently developed matrix, to ensure completeness and accuracy. The matrix identified the entity responsible for implementing each mandate; and also listed their implementation status as of the end of fieldwork, as reported by the FCC.

The matrix developed was also organized by category and/or function of each mandate, in the following categories:

1. Public Interest Obligations,
2. Incremental support;
3. ICC Reform, Rate-of-Return Carriers;
4. Universal Service Company's Oversight and Reporting Requirements; and
5. Performance Measures.

Some of the mandates are directed to the telecommunication carriers and the state regulatory commissions. However, the responsibility of ensuring that the mandates are implemented rests with the WCB, and WTB. The Order mandates that WCB complete tasks that relate to the deployment of fixed voice and broadband services, and WTB complete tasks related to the expansion of mobile voice and broadband services funded by the Mobility Fund. USAC is the third party administrator of the Universal Service Fund, and is responsible for administering orders and directives released by the FCC. The Order also mandates that NECA provide the bureaus with recalculations of the national average cost per loop (NACPL); and revise benchmarks for limitations on high cost loop support (HCLS), in place of benchmarks, prior to the Transformation Order. The Order also directs NECA to file the detailed revenue requirements received from the carriers.

A significant mandate is one that is critical to the overall success of the Order's intended outcomes. Significant mandates pose unique risks to the possibility of the provisions of the Order not being fully implemented. We identified these risks as performance risk, data collection risk, integrity of process risk, and reporting risk. We selected 15 significant mandates for testing, to assess whether the FCC accurately reported their implementation status. This process consisted of interviews with subject matter experts, working sessions with bureau officials, examination of source documentation, and analyses of bureau and carrier data, to obtain reasonable assurance that the evidence gathered is sufficient and appropriate. We also conducted detailed assessments of our noted observations to determine whether there were significant opportunities for improving the implementation process and outcomes of the mandates. Our observations, findings, and conclusions on the mandate matrix, and on the status of the mandates, are supported by the evidence gathered during this performance audit.

We conducted procedures to compare and cross reference the matrix of mandates that we developed, to a corresponding list of mandates prepared by the WTB, WCB, USAC, and NECA. This verification procedure was designed to establish the completeness and accuracy of the mandate population that forms the basis for the FCC's transformation initiatives. We, subsequently, interviewed the management of the responsible bureaus and organizations in order to obtain their representations regarding the status of each mandate as of the end of fieldwork.

The following table is the summary of the FCC's reported status of the Transformation Order mandates.

Status Summary of the Transformation Order Mandates					
Implementaion Status	**Responsible Organization**				**Total**
	WCB	**WTB**	**USAC**	**NECA**	
Completed	9	3	9	2	23
In Progress	10	1	3	-	14
On-going	4	-	9	-	13
Rescinded	-	-	-	1	1
Not Started	1	-	-	-	1
Total	**24**	**4**	**21**	**3**	**52**

Based on the FCC's reported status, as validated by the bureaus and organizations, the following status descriptions are listed and defined below:

Completed: The FCC Bureaus, USAC, or NECA have established and implemented policies and procedures. If applicable, disbursements have been made, and carriers have reported performance, via a self-certification process.

In Progress: The FCC Bureaus, USAC, or NECA are in the process of establishing and implementing policies and procedures for execution of the mandate, but have not fully implemented the mandate.

On-going: The FCC Bureaus, USAC, or NECA have implemented the mandate. However, there are annual or multiple-year requirements that the bureau and/or organization have to complete each year.

N/A- Rescinded: FCC modified the mandate, in which case, it is no longer applicable.

Not Started:	No aspect of the implementation of this mandate had begun as of the last date of testing.

For the 15 mandates tested, we determined whether the results of our testing concurred with the implementation status reported to us by the FCC bureaus. Our testing consisted of interviews with subject matter experts, working sessions with bureau officials, examination of source documentation, and analyses of bureau and carrier data, to obtain reasonable assurance as to the implementation status of the mandates. We also reviewed the results of the FY 2014 and FY 2015 Universal Service Monitoring Report and the CAF progress portal, to determine the status of the significant mandates, as part of our risk assessment and testing. The Monitoring Report highlights trends and statistics from the Universal Service Programs. In addition, the CAF progress portal monitors the CAF progress; however, these monitoring services do not include a comprehensive list of mandates, nor do they report on the status of FCC's Bureau-specific mandates in the Transformation Order. The following presents our analysis and assessment of the implementation status of these mandates. The following implementation timelines represent the effective dates required by the Order. Some mandates are effective in phases; and as a result, have a range of dates, or more than one effective date.

Significant Mandates Tested

1. **Freezing of High Cost Support**

Reference: FCC 11-161, par. 133, 136
Implementation Timeline: Effective 2012
Implementing Agency: WCB
FCC Reported Status: Completed

The FCC directs the establishment of the CAF Phase I, where the FCC freezes support under its existing high-cost support mechanisms of HCLS; safety net additive (SNA), safety valve support (SVS), high-cost model support (HCMS), local switching support (LSS), interstate access support (IAS), and inter-state common line support (ICLS) for Price-Cap carriers and their rate-of-return affiliates. FCC will allocate up to $300 million in additional support to such carriers; one (1) for companies, whose interstate rates are regulated under price caps, and two (2) for those, whose interstate rates are regulated under rate-of-return.

Results of Testing
WCB reported that the Freezing of High Costs Support was completed. We examined disbursement schedules before the Order and subsequent to the Order, and noted that support to carriers was frozen. We noted no exceptions. The status appears accurate.

2. **CAF Incremental Support Deployment**

Reference: FCC 11-161, par. 133
Implementation Timeline: Transformation Order, Effective December 29, 2011
Implementing Agencies:
WCB to establish policies and procedures;
USAC to obtain and review carrier self-certifications of the broadband build out;
FCC Reported Status: In progress

The FCC directed Price-Cap carriers to deploy two thirds of the requisite number of locations in two years, and all of the locations within three years. Price-Cap carriers accepting Phase I incremental support must deploy broadband, meeting specified requirements, to a specified number of un-served locations over a three-year period.

<u>Results of Testing</u>
WCB reported that incremental support mandate was in progress. However, we noted an exception. See finding number 2.

3. CAF Phase II Costs Model
Reference: FCC 11-161, par. 171
Implementation Timeline: June 2012
Implementing Agency: WCB
FCC Reported Status: Completed

The FCC directed WCB to establish a public process to determine the specific design and operation of a forward looking cost model to be used to establish the efficient amount of support required to efficiently extend and sustain robust, scalable voice and broadband in high cost areas. The FCC also directed the WCB to report to the Commission on the status of the model development process, no later than June 1, 2012.

<u>Results of Testing</u>
WCB reported that the cost model mandate was completed. We reviewed the status report and the FCC public notice announcing the adoption of the cost model, to verify whether the mandate was complete. We obtained and examined the WCB public process for designing the CAF Phase II Costs model. We noted that the summary contained detailed timeline of public notices, which sought comment on the design of the model and the network design. We obtained the CAF Costs model methodology, and noted that it contained the specific design and operation of the CAF costs model. We obtained and examined the CAF Phase II Cost Model report. The progress report was submitted on time, and contained a summary of the progress of the CAF Phase II cost model. We noted no exceptions. The status appears accurate.

4. Eligible Census Blocks
Reference: FCC 11-161, par. 157, 184, 187, 192
Implementation Timeline: Anticipated by December 2012
Implementing Agency: WCBFCC Reported Status: Completed April, 2015

The FCC directed WCB to publish a list of all eligible census blocks associated with each incumbent Price-Cap carrier within each state, following the adoption of the cost model, which the Commission anticipates will be before the end of 2012.

<u>Results of Testing</u>
WCB reported that the mandate to publish list of all eligible census blocks associated with each incumbent Price-Cap carrier within each state was completed. We conducted inquires with WCB, and obtained the published list of census blocks associated with each carrier within each

state. We examined and documented the FCC requirements, and verified that the list of all eligible census blocks associated with each carrier was complete. We noted no exceptions. The status appears accurate.

5. Remote Areas Fund

Reference: FCC 11-161, par. 534
Implementation Timeline: Not yet begun as of close of audit period
Implementing Agencies: WCB to establish policies and procedures, and monitor
USAC to implement the policies and procedures;
FCC Reported Status: In progress, because final rules have not been adopted.

The FCC directs the Remote Areas Fund to provide at least $100 million, annually, to consumers in remote areas of the country so that those consumers can obtain service through alternative technologies, such as fixed wireless or satellite.

<u>Results of Testing</u>
WCB reported that the mandate was in progress. R&A reviewed the Remote Fund Order announcing the fund, and also reviewed the Public Notice stating that the fund would be postponed. The Public Notice stated that FCC would wait until CAF phase II was completed, prior to starting the Remote Areas Fund. FCC plans to leverage the results, solutions, and conclusions from the CAF Phase II Program to establish rules for the Remote Areas Fund. We reviewed WCB's status report on the remote areas mandate, and were informed that the establishment of the Remote Areas Fund had been postponed to 2016. The justification for the postponement of the Remote Areas Fund appeared reasonable. We noted no exceptions. The status appears accurate.

6. Bill-and-Keep

Reference: FCC 11-161, par. 650
Implementation Timeline: 6 to 9 year span / Estimated 2012 through 2020
Implementing Agency: WCB
FCC Reported Status: Completed through 2015 (Mandate timeline extends to 2020)

The Commission directs long-term inter-carrier compensation reform, by adopting bill-and-keep as the ultimate, uniform, national methodology for all telecommunications traffic exchanged with Local Exchange Carriers (LEC). The Commission makes clear that states will continue to play a vital role within this framework, particularly in the context of negotiated interconnection agreements, arbitrating interconnection disputes under the section 251/252 framework, and defining the network "edge" for bill-and-keep.

<u>Results of Testing</u>
WCB reported that the mandate was completed. The Tariff Review Plan (TRP) reports carriers' rate reductions mandated by the Transformation Order, and that WCB is required to review the TRP for each ETC, annually. WCB indicated that they review the TRPs annually, although, without formal written review procedures. We were informed by the WCB Pricing Division that the economists, a telecommunications analyst, and an accountant, review each individual TRP to ensure that the filing carrier is implementing the requirements of the ICC Transformation Order.

We reviewed the public notices announcing the TRP, its reporting requirements, revisions, and adjustments. We obtained a copy of the 2015 TRP template. Based on our examination, we noted that each carrier enters the rate data for the applicable period in the template. The template has formulas to calculate the revisions to the rate, and forecast carrier rates based on historical data and formulas. As a result of the calculations, and caps on charges, the rates of carriers are reduced for inter-carrier compensation. The process appears reasonable. We noted no exceptions. The status appears accurate.

7. Rate Floor

Reference: FCC 11-161, par. 239
Implementation Timeline: Phase in, beginning July 2012
Implementing Agency: WCB
FCC Reported Status: Ongoing (annual) completed through 2015

The FCC decided to phase in the rate floor in three steps, beginning with an initial rate floor of $10 for the period of July 1, 2012 through June 30, 2013; and $14 for the period of July 1, 2013 through June 30, 2014. Beginning July 1, 2014, and in each subsequent calendar year, the rate floor will be established after the WCB completes an updated annual survey of voice rates. Under this approach, the Commission will reduce, on a dollar-for-dollar basis, HCLS and CAF Phase I support to the extent that a carrier's local rates (plus state regulated fees) do not meet the urban rate floor.

Results of Testing
WCB reported that the rate floor mandate was ongoing and was to be implemented, initially, in three steps. In April 2014, the third phase was extended through 2018. As evidenced by public notices, the WCB has completed an annual rate survey for 2014 and 2015 to determine the reasonably comparable rates that carriers charge for similar services in urban areas. We noted no exceptions. The status appears accurate.

8. Monthly Cap of $250 Per-Line

Reference: FCC 11-161, par. 277
Implementation Timeline: Phase in, beginning July 2012
Implementing Agencies: WCB to decide waiver petitions and monitor USAC;
USAC to implement the cap limits
FCC Reported Status: Ongoing

Absent a waiver of the monthly cap, FCC directs USAC to commence reductions of the affected carrier's monthly support to $250 per-line, six months after the effective date of these rules, or July 1, 2012. To enforce the cap, USAC shall reduce support provided from each universal support mechanism, with the exception of LSS, based on the relative amounts received from each mechanism.

Results of Testing
WCB and USAC reported that the $250 per-line limitation mandate has been implemented, and is ongoing. We conducted analyses of a listing of carriers subject to the limitation, and those

with applicable waivers. USAC has provided supporting documentation to substantiate that the mandate has been implemented. We noted no exceptions. The status appears accurate.

9. Eliminating the Identical Support Rule

Reference: FCC 11-161, par. 29, 502, 509, 510, 511
Implementation Timeline: 2012
Implementing Agency: USAC to implement the elimination of identical support by adjusting disbursements to carriers
FCC Reported Status: Completed

The FCC eliminated the methodology for calculating competitive ETC support, based on ILEC support (identical support rule); including competitive Wireline service providers, effective January 1, 2012. The order freezes identical support, per study area, as of year-end 2011; and directed a phase down of that frozen support over a five-year period, beginning on July 1, 2012, (except in remote Alaska, and certain locations in North and South Dakota).

Results of Testing

WCB reported that the status of the mandate to eliminate identical support was completed. We obtained the list of carriers subject to the former identical support rule, and performed analyses to determine that identical support was eliminated in the correct timeframe. We reviewed five Study Area Codes (SACs) disbursement reports for years 2011 and 2012. The reports contained a category for identical support. We compared the disbursements for the two years, and noted that as of 2012, identical support was eliminated. We noted no exceptions. The status appears accurate.

10. Mobility Fund, Phase I

Reference: FCC 11-161, par. 299
Implementation Timeline: September 27, 2012
Implementing Agency: WTB
FCC Reported Status: Auction completed; construction and funding in progress

The FCC decided to provide one-time support through a reverse auction, with a total budget of $300 million, to implement the first phase of the Mobility Fund. The winning bidders are required to accelerate deployment of networks for mobile voice and broadband services in un-served areas, but not where they previously planned to cover. WTB is expected to distribute this support as quickly as feasible, with the goal of holding an auction in 2012, with support beginning to flow no later than 2013.

Results of Testing

WTB reported that the Mobility Fund, Phase I auction for the mandate was completed on September 27, 2012. We requested documentation from WTB, examined FCC's public notices for auctions, and analyzed the winning bidders' list and the disbursement of funds. We noted that WTB completed the Mobility Fund Phase I auction on September 27, 2012. We noted that WTB is in the process of validating the carriers' build-out for the mobile voice services, and that the USAC has contracted with an independent third party to complete the validation of the build-out of the broadband services. We noted no exceptions. The status appears accurate.

11. Tribal Mobility Fund Phase I

Reference: FCC 11-161, par. 295-492
Implementation Timeline: 2014
Implementing Agency: WTB
FCC Reported Status: Auction completed; construction and funding in progress

The FCC established the Tribal Mobility Fund, Phase I, to provide one-time support of up to $50 million to deploy mobile voice and broadband to un-served Tribal lands, separate and apart from the $300 million the Commission has allocated for the general Mobility Fund, Phase I.

<u>Results of Testing</u>
WTB reported that the Tribal Mobility Fund auction for the mandate was completed on February 25, 2014. We reviewed the status report and requested documentation to verify that the Tribal Mobility Fund, Phase I auction was completed. We examined the FCC public notices for auctions, and validated that the auction had taken place. We conducted analyses of the winning bidders' list. We noted no exceptions. The status appears accurate.

12. Performance Measures

Reference: FCC 11-161, par. 48, 52, 56
Implementation Timeline: Effective, November 2011
Implementing Agencies: WCB and WTB
FCC Reported Status: Completed

The FCC directs WCB and WTB to develop performance measures for the following goals:

a. Preserve and advance universal availability of voice service, such as the subscription to telephone service (penetration rate).
b. Ensure universal availability of voice and broadband services to homes, businesses, and community anchor institutions. The Order adopts the number of residential, business, and community anchor institution locations that newly gain access to broadband service as an efficiency measure. Exploring other performance measures for this goal was mandated.
c. Ensure universal availability of modern networks capable of providing mobile voice and broadband where Americans live, work, and travel. The Order did not adopt any initial performance measure for this goal, but mandated that WTB develop them.
d. Ensure that fixed and mobile rates are reasonably comparable for all regions of the nation for broadband and voice services. The Order did not adopt any initial performance measure for this goal, but mandated that the bureaus develop them.
e. Minimize contribution burden on consumers and businesses. The Order suggested a calculation as a performance measure, and mandated that the bureaus refine it.

<u>Results of Testing</u>
WCB and WTB reported that the performance measures for the mandated goals above were completed. The above performance measures were supported by FCC reports measuring the progress of the implementation of the Order. In order to gain an understanding of the performance measures, and determine if they were properly aligned to the goals of the Order, we

examined the National Voice Penetration Rate Report, the Incremental Support by State report, Incremental Disbursement report, the Monitoring reports from 2014 and 2015, Mobile Wireless Competition Report 2012-2015, the WCB Annual Rate Survey Results for 2014 & 2015, and the Households Served report for years 2011 through 2014. Based on our examination of these reports, we determined that the performance measures included in the reports properly reported WCB's progress toward implementing the Order and meeting the Order's goals. We noted no exceptions to WCB's mandate representation.

However, we noted an exception to WTB's representation of the status of the mandate for performance measures. Specifically, the goal for measuring comparable rates for broadband and voice services in the Transformation Order mandate. This goal is listed in performance goal (d) above. See finding 2.

13. Beneficiary Compliance Audit Program (BCAP) & Payment Quality Assurance (PQA)

Reference: FCC 11-161, par 609-611, 628
Implementation Timeline: Annually, effective November 2011
Implementing Agencies: USAC to revise the BCAP and PQA;
OMD to review and approve the BCAP and PQA revisions
FCC Reported Status: Completed through 2015

The FCC directs USAC to revise the BCAP and PQA programs to take into account the changes adopted in the Order; and to submit the programs to WCB, WTB, and OMD within 60 days of release of the Order. The Order specifically directs USAC to, annually; assess compliance with the new requirements established for recipients of CAF Phase I and Phase II.

<u>Results of Testing</u>
WCB and USAC reported that this mandate was completed. We obtained the annual letters from USAC to WCB, WTB, and OMD, with the proposed revisions to the BCAP and PQA for 2012, 2013, 2014, and 2015. We examined the BCAPs and PQAs to determine whether the programs were revised to include the new requirements of the Order. The programs were revised in accordance with the Order. We noted no exceptions. The status appears accurate.

14. Streamline Annual Section 254e Certification

Reference: FCC 11-161, par 607 - 614
Implementation Timeline: Annually, effective November 2011
Implementing Agencies:
WCB and WTB to establish the certifications (FCC Forms 481and 690);
USAC to administer receipt of the forms;
States to certify CAF support and assist in monitoring compliance
FCC Reported Status: Completed through 2015

Although WCB, WTB, and USAC were not specifically named in the mandate, our analysis found that WCB, WTB, and USAC are in fact responsible for the mandates. WCB and WTB are to streamline and improve ETCs' annual certification requirements. The rules direct states, and entities not falling within the states' jurisdiction (i.e., federally-designated ETCs), to certify that all Federal high-cost and CAF support was used in the preceding calendar year, and will be used in the new calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended, regardless of the rule under which that support is provided. States and carriers not subject to state certifications are required to submit annual certifications on the Form 481 for all carriers, except for recipients of Mobility Fund support; and Form 690 for Mobility Fund recipients. The states and carriers annually submit these forms to WCB or WTB, through the USAC online platform. Second, the Commission maintains the states' ongoing role in annual certifications.

Results of Testing

WCB reported that it completed the streamlining of reporting requirements. We concluded that the creation of the FCC Forms 481 and 690 and the online submission, collection, and reporting system met the requirements to streamline the certification requirement in accordance with the Transformation Order. We noted no exceptions. The status appears accurate.

15. Annual Survey

Reference: FCC 11-161, par 85, 99, 114
Implementation Timeline: Annual Reporting, effective February 15, 2012
Implementing Agencies: WCB and WTB to develop an annual survey
FCC Reported Status: WCB – Ongoing (annual certification in progress); WTB – Not applicable

The FCC delegates to the WCB and WTB, the authority to conduct an annual survey of urban broadband rates, if necessary, in order to derive a national range of rates for broadband service; and to determine the appropriate components of such a survey. The results of this survey will be published annually. For purposes of conducting the survey, the Bureaus should develop a methodology to survey a representative sample of facilities-based fixed voice service providers, taking into account the relative categories of fixed voice providers, as determined in the most recent FCC Form 477 data collection.

Results of Testing

WCB reported that the annual survey for fixed broadband services mandate was completed through 2015. R&A obtained and examined the methodology for the WCB annual surveys. We examined the results of the surveys for 2014 and 2015, in order to determine whether the rate surveys were in accordance with the Order, and whether the surveys were completed properly. We also examined applicable Orders and Public Notices announcing the results of the survey in order to determine whether survey results were properly communicated to the public. We noted no exceptions.

WTB reported that the annual survey for the mobile broadband services mandate was not applicable because they were not required to complete an annual rate survey. See finding number 2.

Appendix B – FCC Management's Response to Draft Audit Report

Federal Communications Commission
Washington, D.C. 20554

September 28, 2016

David L. Hunt
Inspector General
Office of Inspector General
Federal Communications Commission

Dear Mr. Hunt:

Thank you for the opportunity to review and comment on the draft report from the Office of Inspector General (OIG) entitled *Performance Audit of the Federal Communications Commission's Implementation of Reforms to the Universal Service Fund, High Cost Program.* The Commission is committed to facilitating the expansion of 21st century communications across the United States. In the draft report, the OIG makes two findings. We address each of the OIG's findings below.

Implementation of the 2011 *USF/ICC Transformation Order* was a historic, multi-year effort involving several organizations within the Commission, states and Tribal governments. The reforms touch eligible telecommunications carriers that historically have received federal high-cost universal service support, unsubsidized competitors that provide voice and broadband service, and new providers seeking to take on voice and broadband obligations in rural, high-cost areas. The Universal Service Administrative Company (USAC) -the independent, not-for-profit corporation designated as the administrator of the federal Universal Service Fund by the Commission -played a critical role in implementation of the reforms, as did the National Exchange Carriers Association (NECA), which performs tariffing and pooling functions for many smaller telephone companies. Work continues on many aspects of implementation, and the Commission has made modifications to the reforms initially adopted where appropriate.

First, the OIG recognizes that "the Commission has made significant progress" in implementing the requirements of the *USF/ICC Transformation Order,* but finds that the Commission "does not have a comprehensive project management system for the implementation of the Transformation Order." Due to resource limitations, the Commission was unable to implement a formal project management system in the early years of implementation of the reforms, although we did implement a program of standing weekly coordination meetings for management from the Wireline Competition Bureau (WCB) and the Wireless Telecommunications Bureau (WTB) to discuss challenges, potential changes, and status of implementation of the *USF/ICC Transformation Order,* which have occurred virtually every week since 2012. In addition, WCB, WTB and the Office of Managing Director (OMD) have a standing weekly meeting to discuss matters relating to USF in general, and have used that time also to discuss issues regarding implementation of the *USF/ICC Transformation Order.*

More recently, however, the Commission has been working with USAC to improve processes for tracking implementation of various reforms. Since 2011, the Commission has continued reform of its high-cost universal service program. In March 2015, the Commission fundamentally reformed the support mechanisms for rate-of-return carriers, an initiative completing action on issues that were initially identified in the *USF/ICC Transformation Order.* Subsequent to that order, WCB has been working with USAC to put into effect a project management system as it implements these more recent reforms, including a weekly status report on implementation, weekly meetings between WCB and USAC staff, monthly meetings between WCB and USAC management, and a dashboard that tracks implementation and identifies risks to meeting critical tasks. WTB has similar weekly meetings with USAC staff and management to address issues relating to the oversight, management and implementation of the *USF/ICC Transformation Order* for mobile wireless services. We intend to continue to work with USAC to implement measures to delineate clearly responsibility for tasks associated with various reforms, oversight of critical timelines, identification of corrective actions, where appropriate, and a reporting mechanism for assessing the effectiveness of the reforms.

Second, the OIG finds that "management's reporting to stakeholders was generally accurate and complete," but that "management could more clearly report the status of the implementation of two mandates," relating to Connect America Phase I incremental support and annual surveys to determine reasonably comparable rates. We are pleased that the OIG recognizes that significant work has been done since 2011. Of the 52 mandates identified by the OIG as arising out of the *USF/ICC Transformation Order,* 36 either have been completely implemented by the Commission's bureaus, USAC or NECA, or – as OIG has characterized them -work has been completed but there are annual or multi-year requirements to complete each year. The OIG found that another 14 mandates "are in the process of establishing and implementing policies and procedures for execution of the mandate, but have not fully implemented the mandate." Of the 15 mandates tested by the OIG, 13 were completed or required ongoing multi-year work and the other two were in progress. We now address the specific findings relating to implementation of two mandates in the *USF/ICC Transformation Order.*

Connect America Phase I Incremental Support. The OIG finds that WCB should have reported that it had not fully implemented all aspects of Phase I Incremental Support and the reasons for not doing so. WCB agrees with the OIG that Connect America Phase I had not been fully implemented during the audit period, and indeed indicated to the OIG that a process for validating build-out was in development and had not yet been finalized during the time period of the audit, i.e. before the end of field work in January 2016. Simply put, during the time period of the audit, it was premature to assess "whether the carriers completed the build-out, as required by the Transformation Order" because carriers were not in fact required to report whether they completed their incremental build-out during the audit period. The deadline for completion of deployment for the first round of Phase I incremental support was July 2015, but carriers were not required to report on and certify to that completion until their July 2016 Form 481 filings.[1]

Subsequent to the OIG's audit period, WCB and USAC finalized a process to conduct compliance reviews of carriers' reported Phase I incremental deployment. Work is currently underway on reviewing the submissions of carriers regarding their completion of build-out for Round 1 and their

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[1] As of July 2016, five of the six carriers that accepted Round 1 support reported completion of their incremental deployment. The sixth carrier filed a petition for waiver that WCB denied and directed USAC to recover Phase I incremental support to the extent the carrier failed to meet its deployment requirements, per Commission rules. *ACS Petition for Waiver of Sections 54.312(b)(2) and (3) of the Commission's Rules, Connect America Fund,* WC Docket No. 10-90, *High-Cost Universal Service Support,* WC Docket No. 05-337, Order, 31 FCC Red 7005 (WCB 2016) (ACS *Phase I Waiver Denial Order).*

progress in meeting the two-year milestone for Round 2.[2] Moreover, we note that the Commission specified that it would recover support from carriers that fail to meet Phase I deployment obligations, and WCB has already directed USAC to do so.[3]

Annual Wireless Rate Survey. The OIG finds that WTB should more clearly report on why it has not conducted an annual rate survey of wireless voice and broadband rates, consistent with its delegation of authority in the *USF/ICC Transformation Order*. As the report points out, WTB's view is that such a survey was "just one means for the bureau to pursue the objectives" set forth in the Order that the rates of carriers receiving High Cost Support for rural areas be reasonably comparable to those in urban areas. In lieu of a standalone rate survey, WTB instead has released an annual Mobile Competition Report that has included a review of mobile rates, which has described the well-known practice that carriers offer nationwide pricing plans that are available throughout their service areas – and, thus, that there is no pricing disparity between urban and rural markets. WTB agrees with the OIG that accountability and transparency are central to the work of the bureau and to the agency as a whole. In furtherance of these goals, WTB has decided to include language in the Mobile Competition Report clarifying for stakeholders that today's mobile pricing practices satisfy the rate comparability objectives set out in the *USF/ICC Transformation Order*.

Overall, we are pleased that the OIG has determined that the Commission has completed such significant work on the historic *USF/ICC Transformation Order*. That Order was just the first of many steps towards advancing the goal of ensuring deployment of advanced telecommunications and information services networks through "all regions of the nation."[4]

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[2] At this time, no carrier is required to have completed its Round 2 build-out; the first such completion deadline is October 1, 2016, and carriers are required to report and certify by July 2017. *See WCB Announces Deadlines for Connect America Phase I Round Two,* WC Docket No. 10-90, Public Notice, 29 FCC Red 11445 (WCB 2014).

[3] *See USF/ICC Transformation Order,* 26 FCC Red at 17721, para. 147 (specifying the carriers that fail to meet Phase I deployment obligations will be required to return that support); *Connect America Fund et al.,* WC Docket No. 10-90 et al., Order, 27 FCC Red 8141, 8142-43, para. 4 (WCB 2012) *(Phase I Clarification Order)* (clarifying how to calculate the amount of support a carrier must return for failing to meet its deployment requirements); *ACS Phase I Waiver Denial Order,* 31 FCC Red at 7010, para. 19.

[4] 47 U.S.C. § 254(b)(3).

Thank you for the opportunity to respond to the findings in the draft report. We look forward to working with the OIG in the future.

Sincerely,

Matthew S. DelNero
Chief, Wireline Competition Bureau

Jon Wilkins
Chief, Wireless
Telecommunications Bureau

Mark Stephens
Acting Managing Director, Office of
Managing Director

Appendix C - Acronyms and Abbreviations

BCAP	Beneficiary Compliance Audit Program
CAF	Connect America Fund
CETC	Competitive Eligible Telecommunications Carrier
CFR	Code of Federal Regulations
ETC	Eligible Telecommunications Carrier
FCC	Federal Communications Commission
Form 481	ETC Annual Reporting Forms
Form 477	Local Telephone Competitions and Broadband Reporting
Form 690	ETC Receiving Mobility Support Annual Reporting Form
GAO	Government Accountability Office
HCLS	High Cost Loop Support
HCP	High Cost Program
ICC	Inter-carrier Compensation
ILEC	Incumbent Local Exchange Carrier
NECA	National Exchange Carrier Association
OIG	Office of the Inspector General
OMD	Office of the Managing Director
PPD	Pricing Policy Division
PN	Public Notice
PQA	Payment Quality Assurance
R&A	Regis & Associates, PC
SAC	Study Area Code
The Order	USF/ICC Transformation Order (FCC 11-161)
TRP	Tariff Review Plan
U.S.	United States
USAC	Universal Service Administrative Company
U.S.C.	United States Code
USF	Universal Service Fund
WCB	Wireline Competition Bureau
WTB	Wireless Telecommunications Bureau