The Low Income Program
Initial Statistical Analysis of Data from the 2006/2007 Compliance Audits

By

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Background and Introduction

This report contains a statistical analysis of data from the 2006/2007 audits of the Low Income Universal Service ("LI") Program of the Federal Communications Commission ("FCC" or "Commission"). The primary objective of the Inspector general ("IG") in auditing the LI program was to produce data to measure the level of compliance of LI beneficiaries with Commission Rules and opinions interpreting those rules. To assess compliance and risk, a stratified random sample of 60 Service Areas was drawn and compliance attestation examinations/audits were completed. In addition, the audits were intended to produce data that would provide the basis for statistical estimates of the erroneous payment rate and the amount of erroneous payments, under the Improper Payments Information Act of 2002 ("IPIA").[1] Under the IPIA, estimates of both the erroneous payment rate and amount of erroneous payments may guide the Commission in assessing risk associated with the LI Program. Under IPIA standards, a program is at risk if the erroneous payment rate exceeds 2.5 percent and the amount of erroneous payment is greater than $10 million.

Statistical results from this stratified random sample suggest that the program is at risk. The erroneous payment rate is estimated at 9.5 percent with a margin of error ± 2.1 percent at the 90 percent confidence level.[2] Compliance with rules and regulations was generally high (85 percent or more), exceptions included: advertised supported services, link-up discount, determining consumer qualifications, officer certification, Form 497 submission, and record keeping.

Low Income Program Description

Program Overview

The LI Program of the Universal Service Fund ("USF"), which is administered by the Universal Service Administrative Company ("USAC"), is designed to ensure that quality telecommunications services are available to low-income customers at just, reasonable, and affordable rates. Similar programs have existed since at least 1985. The Telecommunications Act of 1996 reiterated their importance by including the principle that "consumers in all regions of the nation, including low income consumers . . . should have access to telecommunications and information services . . ."[3]

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[1] Pub. L. 107-300, 116 Stat. 2350.
[2] During the period audited, nearly $795.8 million were disbursed to recipients under the Low Income program,
[3] 47 U.S.C. § 254(b)(3).

In its May 8, 1997 First Report and Order in the USF proceeding,[4] the Commission established rules to govern Lifeline, Link Up, and Toll Limitation Service (TLS) program support - the three components of the LI Program.[5] Lifeline support reduces eligible consumers' monthly charges for basic telephone service. Link Up support reduces the cost of initiating new telephone service. Toll Limitation Service support allows eligible consumers to subscribe to toll blocking or toll control at no cost.

On June 30, 2000, the FCC amended its rules to "increase access to telecommunications services and subscribership among low-income individuals living on American Indian and Alaska Native lands.[6]" As a result of this order, residents of federal tribal lands receive up to an additional $25 in Lifeline support (Tier 4 support) and an additional $70 in Link Up support to cover 100 percent of all charges between $60 and $130. These provisions bring the cost of basic local telephone service for most tribal residents to $1.00, the minimum charge for tribal Lifeline service. The order also expanded the federal default eligibility criteria to include low-income programs that residents of tribal lands were most likely to receive assistance from.

On April 29, 2004, the FCC released the *Lifeline and Link Up Order*[7] further modifying the LI Program. The order expanded the eligibility criteria for qualifying consumers to include an income-based criterion and participation in National School Lunch free lunch program and Temporary Assistance for Needy Families (TANF) as additional criteria. By expanding the eligibility criteria to include an income-based criterion, the Commission estimated that 1.17 million to 1.29 million additional households that do not participate in the program-based criteria would enroll in Lifeline based on the new criteria.

In addition, the *Lifeline and Link Up Order* adopted certification and validation procedures that are designed to minimize potential abuse of the Low Income Program. The FCC required carriers that serve in federal default states to complete a verification of a statistically valid sample of their Lifeline customers and submit the results to USAC by June 22, 2005 and annually on that date. The *Lifeline and Link Up Order* also clarified recordkeeping requirements and adopted outreach guidelines for carriers.

Overview of Administrative Process

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[4] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776 (FCC 97-157) (1977).
[5] The Commission's LI rules are codified at 47 C.F.R. § 54.400-417.
[6] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Twelfth Report and Order, Memorandum Opinion and Order, 15 FCC Rcd. 12208 (FCC 00-208) (2000).
[7] Interstate Common Line Support for Lifeline and Link-Up, WC Docket No. 03-109, Report and Order, 19 FCC Rcd. 8302 (FCC 04-87) (2004) ("*Lifeline and Link-Up Order*").

Consumers apply for Lifeline, Link Up, and Toll Limitation Service (TLS) support through their local telephone company or a designated agency.[8] The companies then seek reimbursement from the federal USF LI Program for the revenue they forgo by providing discounted service to eligible low-income consumers.

Eligible telecommunications carriers ("ETCs") (incumbent local exchange companies ("ILECs"), competitive local exchange companies ("CLECs"), and wireless carriers so designated) that have provided eligible consumers with Lifeline discounts file the Lifeline and Link-Up Worksheet (Form 497) with USAC to receive LI Program support, which reimburses them for providing service at discounted rates. Carriers must file one Form 497 for each month for which they claim support. Carriers may either file forms for three months on a quarterly basis or file one form monthly.

USAC pays companies based on a projection and then trues-up that amount when it receives a company's support claim on Form 497. Carriers can file original and revised Form 497s for up to 25 months depending on the time of year. Carriers frequently file revisions to update their support claims.

USAC routinely reviews carriers' support claims to ensure they are consistent with the Commission's rules. In addition to the review of the data submitted on Form 497, USAC's Internal Audit Division conducts Low Income beneficiary audits to ensure program compliance.

USAC disburses Low Income support payments once each month. The payment amount disbursed to each company is a projection that is based on the company's historical support claims for the past twelve months.

Two months prior to the start of each quarter, USAC is required to file projections with the FCC for each support program. The Low Income projection is calculated by applying a growth rate across all carriers currently receiving low income support.

The application process for Lifeline and Link -p varies by state. In some states, consumers apply for Lifeline by contacting their local telephone company directly. In others, consumers must apply through a designated agency. For information on how to apply for Lifeline and Link Up, consumers can visit USAC's Low Income Consumer website or call their local telephone company directly.

As note previously, USAC, reimburses eligible telecommunications carriers for providing Lifeline, Link Up, and Toll Limitation Service to eligible low-income

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[8] Eligibility for Lifeline, Link Up, and Toll Limitation Service (TLS) varies by state. Individuals who reside in states that have their own discount programs qualify for federal Lifeline, Link Up, and TLS support if they meet the eligibility criteria established by their state.

consumers. All ETCs receiving High Cost and LI support must provide all of the services described in the Commission's rules. A wireline or wireless telephone company seeking reimbursement from the LI Program must be designated as an ETC by its state commission or, in some cases, by the FCC. In addition, all ETCs providing LI support services must ensure that their consumers are eligible for the discount based on the applicable state or federal requirements.[9]

Eligible telecommunications carriers must file the appropriate forms: ETCs that have provided eligible consumers with Lifeline discounts file the Lifeline and Link Up Worksheet (Form 497) with USAC to receive support that reimburses them for providing service at discounted rates. Additionally, as for all USF programs, ETCs must file: (1) Form 499-Q, Quarterly Telecommunications Reporting Worksheet; (2) Form 499-A, Annual Telecommunications Reporting Worksheet; and (3)Form 498, Service Provider Information Form.

Compliance and IPIA Audits

In early 2006, the Inspector General established two objectives that an audit of the LI Program was to achieve. The primary objective was to determine the extent of compliance with FCC rules, orders and interpretive opinions. Because the LI program was considered to possibly (although not definitely) be at risk[10] based on analysis of 24 transactions from the 2003-06 period, the second objective of the audit was to provide a statistical measure of the erroneous payment rate that could better inform future decision making under the IPIA. In order to determine compliance (as captured within the general administrative process for approval described above), a compliance audit of each recipient on a specific Service Area Provider was undertaken. With the IG's use of a compliance attestation examination, the auditee (management of the service provider) is required to sign an assertion letter acknowledging its responsibility for compliance with applicable requirements of Commission rules (e.g., 47 C.F.R §§ 54.400 - 54.417), as well as FCC orders and to make specific assertions relative to an applicant's compliance with those Rules. Auditors validated or invalidated the assertions, and provide the cause(s) for the failure of an assertion. That is, auditors determine whether a beneficiary of the LI

[9]States have primary responsibility for designating telecommunications providers as ETCs. A carrier seeking ETC designation on non-tribal lands must first consult with its state utility regulator to see if the state utility regulator has ETC jurisdiction and procedures in place for seeking ETC status. If not, the carrier may petition the FCC and must provide an affirmative statement from the state utility regulator to that effect. A carrier seeking ETC designation on tribal lands may directly petition the FCC for designation without first seeking designation from its state utility regulator.
[10] FCC Report to Congress on Improper Payments, March 31, 2004.

program is in compliance with FCC rules and, if the beneficiary is not in compliance, the auditors provides the cause(s) of, or reason(s) for non-compliance.

Table 1 contains the assertion letter that each auditee signed. Data generated from the compliance attestation audits, which were based on the assertions set out in Table 1 below, where then analyzed statistically.

Table 1

EXAMPLE ASSERTIONS LETTER

FY 2005 Example Assertions Letter for Study Area Code (ADD)

Report of Management on Compliance with Applicable Requirements of 47 C.F.R. Section 54 of the Federal Communications Commission's Rules, Regulations and Related Orders

Management of (name of telecommunications carrier) is responsible for ensuring that the carrier is in compliance with applicable requirements of the Federal Communications Commission (FCC) rules at 47 C.F.R. §§ 54.101, 54.201 -- 54.209, and 54.400 -- 54.417 as well as related FCC Orders.

Management has performed an evaluation of the carrier's compliance with the applicable requirements of FCC rules at 47 C.F.R. §§ 54.101, 54.201 -- 54.209, and 54.400 -- 54.417, and related FCC Orders with respect to providing discounts to eligible low income consumers and seeking reimbursement from the Universal Service Fund (USF) during the year ended September 30, 2005.

The Carrier makes the following assertions with respect to Low Income Program reimbursements received from the USF for Study Area Code (ADD) during the year ended September 30, 2005:

A. Carrier Eligibility – the (name of Telecommunications Carrier) asserts that it:

1. is an eligible telecommunications carrier (ETC) (47 C.F.R. §§ 54.201(a); *Definition of eligible telecommunications carriers, generally,* which discusses carrier eligibility) and provides the services required for eligibility (54.101(a): *Services designated for support*, and (b): *Requirement to offer all designated services*; which describe the services that an eligible carrier must offer to receive federal universal service support)

2. makes available Lifeline service, as defined in 54.401, to qualifying low-income consumers (47 C.F.R. § 54.405(a): *Carrier obligation to offer lifeline*, which discusses carriers' obligations to offer, publicize, notify and allow lifeline services)

B. Advertising Supported Services – the (name of Telecommunications Carrier) asserts that it:

1. publicizes the availability of supported services in a manner reasonably designed to reach those likely to qualify for the service. Lifeline (47 C.F.R. § 54.405: *Carrier obligation to offer lifeline*,: *Link Up program defined* and Toll Limitation Support services (47 C.F.R. § 54.201(d)(2): *Definition of eligible telecommunications carriers, generally,* which requires the advertising of the availability of services)

C. Rate verification -- the (name of Telecommunications Carrier) asserts that it

1. provides discounts to qualifying subscribers for Lifeline service and requests reimbursement from USAC according to the following requirements and maximums:

   i. Tier 1: Available to all eligible Lifeline subscribers equal to the Incumbent Local Exchange Carrier's (ILEC's) actual federal tariffed subscriber line charge (SLC), currently capped at $6.50 per month (47 C.F.R. § 54.403 (a)(1): *Lifeline support amount,* which discusses Tier 1 support)

   ii. (if carrier is a Competitive ETC), uses the subscriber line charge of the Incumbent LEC and also uses a reasonable average calculation if using the subscriber line charge(s) of multiple Incumbents. 47 C.F.R. § 54.407: *Reimbursement for offering Lifeline,* which discusses that carriers comply with USAC administrative procedures – in this case the FCC Form 497 requires that for multiple rates an average support amount should be used)

   iii. Tier 2: $1.75 per month available to qualified low-income consumers, if the carrier received any non-federal approvals necessary to implement the required rate reduction and passes through the full amount of Tier 2 support to the qualifying low-income consumer (47 C.F.R. § 54.403 (a)(2): *Lifeline support amount,* which discusses Tier 2 support)

   iv. Tier 3: An additional amount of federal Lifeline support equal to one-half the amount of any State-mandated Lifeline support, or one half of any Lifeline support provided by the Service Provider, up to a maximum of $1.75 per month (47 C.F.R. § 54.403 (a)(3): *Lifeline* *support amount,* which discusses Tier 3 support)

v. Tier 4: Additional federal Lifeline support of up to $25 per month to eligible residents of tribal lands, as defined in § 54.400 (e), as long as th amount does not bring the basic local residential rate below $1 per month per qualifying low-income subscriber (47 C.F.R. § 54.403 (a)(4): *Lifeline support amount,* which discusses Tier 4 support)

2. provides discounts to qualifying subscribers for Link Up service and requests reimbursement from USAC according to the following requirements and maximums:

   i. a reduction of half of the customary Carrier charge or $30, whichever is less, for commencing telecommunications service for a single telecommunications connection at a consumer's principal place of residence (47 C.F.R. § 54.411 (a)(1): *Link Up program defined*, which discussed the amount of the reduction)

   ii. for an eligible resident of Tribal lands, an additional reduction of up to $70 to cover 100 percent of the charges between $60 and $130 for commencing telecommunications service for a single telecommunications connection at a consumer's principal place of residence (47 C.F.R. § 54.411 (a)(3)): *Link Up program defined*, which discussed the amount of the additional reductions)

3. allows eligible consumers to voluntarily subscribe to toll blocking or toll control at no cost, and

   i. maintains support, such as percent of participation, to demonstrate that consumers voluntarily elected the service (47 C.F.R. § 54.101(9): *Toll limitation for qualifying low-income consumers,* which describes toll limitation services, and 54.417(a): *Recordkeeping requirements,* which require that carriers maintain records to document compliance with FCC requirements)

   ii. not charge a service deposit to customers electing the service (47 C.F.R. § 54.401(c): *Lifeline defined,* which specifies that carriers may not collect a service deposit in order to initiate Lifeline service, if the qualifying low-income consumer voluntarily elects toll limitation service from the carrier)

   iii. only claim the incremental cost of providing the service (47 C.F.R. §§ 54.403(c): *Lifeline support amount,* which specifies that Lifeline support for providing toll limitation shall equal the ETC's incremental cost of providing either toll blocking or toll control, and 54.417(a): *Recordkeeping requirements,* which require that carriers maintain records to document compliance with FCC requirements and *Federal-State Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, ¶¶ 385-389 (1997))

D. Consumer Qualification for Lifeline Service – the (name of Telecommunications Carrier) asserts that it:

1. maintains policies and procedures that are effectively implemented to review and certify consumer eligibility for Lifeline, Link Up and Toll Limitation services (47 C.F.R. § 54.410: *Certification and Verification of Consumer Qualification for Lifeline,* which discusses the certification and verification requirements). This includes that an officer of the carrier:

   a. in a state that mandates state Lifeline support, certifies that the carrier is in compliance with state Lifeline income certification procedures and that, to the best of his/her knowledge, documentation of income was presented (47 C.F.R. § 54.410(b)(1): *Certification and Verification of Consumer Qualification for Lifeline,* which requires compliance with state certification procedures to document consumer eligibility)

   b. in a state that does not mandate state Lifeline support, certifies that the carrier has procedures in place to review income documentation and that, to the best of his/her knowledge, the carrier was presented with documentation of the consumer's household income (47 C.F.R. § 54.410(b)(2): *Certification and Verification of Consumer Qualification for Lifeline,* which requires compliance with state certification procedures to document consumer eligibility)

   c. by June 22, 2005, in states that mandate state Lifeline support, complies with state verification procedures to validate consumers' continued eligibility for Lifeline (47 C.F.R. § 54.410 (c)(1): *Certification and Verification of Consumer Qualification for Lifeline*, which requires compliance with state verification procedures to document consumer eligibility)

2. by June 22, 2005, in states that do not mandate Lifeline support, has implemented procedures to verify the continued eligibility of a statistically valid random sample of their Lifeline consumers and provided the results of the sample to the USAC. If verifying income, an officer of the carrier certifies, under penalty of perjury, that the carrier has income verification procedures in place and that, to the best of his/her knowledge, the carrier was presented with corroborating income documentation. In addition, the carrier has documentation that the consumer certified that he/she continues to participate in the Lifeline qualifying program or that the presented documentation accurately represents the consumer's household income and

the number of individuals in the household (47 C.F.R. § 54.410(c)(2): *Certification and Verification of Consumer Qualification for Lifeline*, which requires compliance with state verification procedures to document consumer eligibility)

E. Submission of Lifeline and Link Up Worksheet (Form FCC 497) – the (name of Telecommunications Carrier) asserts that it:

    1. submitted properly completed FCC Forms 497 for each month, representing discounts actually provided to subscribers, for the year ended September 30, 2005, and has the required supporting documentation for the number of subscribers, rates and other information provided on the Form (47 C.F.R. 54.407: *Reimbursement for offering Lifeline,* which discusses carrier reimbursement for providing Low Income Program support and requires the carrier to keep accurate records in the form directed by USAC and provide the records to USAC)

F. General Recordkeeping Requirements – the (name of Telecommunications Carrier) asserts that:

    1. it maintains records to document compliance with all FCC and state requirements governing the Lifeline and Link Up programs (47 C.F.R. § 54.417(a): *Recordkeeping requirements,* which require that carriers maintain records to document compliance with all FCC and state requirements governing the Low Income Program and provide documentation to FCC or USAC upon request)

    2. if it sells Lifeline connections to non-ETC resellers, obtains certifications form the non-ETC reseller that it is complying with the FCC's Lifeline and Link Up requirements (*In the Matter of Lifeline and Link-Up*, WC Docket No. 03-109, Report and Order and Further Notice of Proposed Rulemaking, 19 FCC Rcd 8302, ¶ 40 (2004), which clarified the recordkeeping obligations of non-ETC resellers that purchase Lifeline-discounted wholesale services from ETCs to offer discounted services to low-income consumers.

Sample Design

The LI program sample design was a two-stage, stratified simple random sample of 60 SACs from a population data base of 1,555. The three strata were defined in terms of "total amount disbursed" as follows, with the number N of SACs in the population and number n in the random sample in parentheses:

1. Amount disbursed less than $500,000 (N=1,439, n=42.)

2. Amount disbursed from $500,000 to less than $25,000,000. (N=112, n=14.)

3. Amount disbursed from $25,000,000 and up. (N=4, n=4.)

Based on the analysis of the 24 audits of transaction data from 2003-06, it was estimated that a stratified sample of size 45 (32, 9, and 4 in the strata above) would produce a margin of error for the error rate of 2.5 percent at the 90 percent confidence level, assuming a full audit of all customers of the selected providers. USAC decided to increase the sample size to 60 to provide an extra margin of safety to account for the second stage of sampling as explained in the next paragraph.

Since it would be an almost impossible task to examine all twelve monthly statements from all customers of the service providers chosen in the first stage of sampling, a program to randomly sample customer statements throughout the year was developed using experimental design techniques. As it would be difficult for a provider to sample customers scattered throughout the year, the design featured assigning two months at random to each provider and then randomly select customer statements for audit in the assigned months. Specifically, the 66 possible pairings of months of the year were randomly sorted and assigned to each of the 60 service providers chosen in the first stage of sampling. This resulted in each of the twelve months being assigned between 7 (July) and 11 (May, August, December) times. A random sample of a minimum of 30 to 60 customer invoices were selected and audited for each of the two months assigned to a provider. (This minimum number of invoices depended on the number of customers receiving benefits, and was chosen so that the margin of error for a specific provider was less than 2.5 percent assuming an improper payment rate of 5 percent, which was considered conservative in light of previous audits.) If the number of customers in a month was less than 30, then all invoices for that month were audited. At the discretion of the audit companies, the minimum sample sizes were increased in some cases.) In order to adequately capture all seven components of the Low Income program: Tiers I-IV, TLS, Tribal and Non-Tribal Link-up, the sample of customer invoices was stratified when necessary so that at least 20-30 statements covering each component was audited.

Sample Selection

The sample of providers was chosen using SAS PROC SURVEYSELECT.

The assignment of months to selected providers was carried out by listing all 66 possible pairs of months, randomly sorting the list and assigning the sorted list in order to each of the 60 selected providers. The expected (in the probability sense) number of times each month would be assigned to a provider is 10 (=60*[2/12]). Due to the randomness of the assignment process, the realized frequencies varied from 7 (July) to 11 (May, August, December).

The sample of customers within each assigned month was chosen at random by the audit companies after creating a database listing of all customers for the month.

There were no issues associated with sampling.

Estimation Formulas[11]

The LI sample design was stratified into three strata. One stratum consisted of the four Service Providers with disbursements of $25,000,000 or more, all of which were audited. Simple random samples were selected from the two strata.

To estimate the amount and proportion of erroneous payments in the population, the *separate ratio estimator* was used. The remainder of this section gives the formulas used to compute the separate ratio estimator and its margin of error.

The following notation is used:

x_i = amount disbursed to Serving Area *i*.

y_i = absolute value of improper payment amount to Serving Area *i*.

t_x = known population total of x.

t_{xh} = known population total of x in stratum h.

N_h = Number of Serving Areas in stratum h

n_h = sample size from stratum h.

$\bar{x}_h = \frac{1}{n_h}\sum_{i \in h} x_i$ = sample mean disbursement *x* in stratum *h*.

$\bar{y}_h = \frac{1}{n_h}\sum_{i \in h} y_i$ = sample mean of improper payments *y* in stratum *h*.

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[11] *See* W.G. Cochran, *Sampling Techniques*, 3rd edition, John Wiley & Sons, New York (1977).

$$\hat{p}_h = \frac{\bar{y}_h}{\bar{x}_h} = \text{ Proportion of erroneous payments in stratum } h.$$

$$\hat{t}_{yh} = t_{xh}\hat{p}_h = \text{estimate of total erroneous payments in stratum } h.$$

$$\hat{t}_y = \sum_h \hat{t}_{yh} = \text{separate ratio estimator of total erroneous payments.}$$

$$\hat{p} = \frac{\hat{t}_y}{t_x} = \text{ separate ratio estimator: population proportion of erroneous payments}$$

$$d_i = y_i - \hat{p}_h x_i = \text{ residual for serving area in stratum } h.$$

$$\bar{d}_h = \frac{1}{n_h}\sum_{i \in h} d_i = \text{sample mean residual in stratum } h.$$

$$s_{dh}^2 = \frac{1}{n_h - 1}\sum_{i \in h}\left(d_i - \bar{d}_h\right)^2 = \text{sample variance of residuals } d \text{ in stratum } h.$$

$$\text{ME} = (1.645)\frac{1}{t_x}\sqrt{\sum_h N_h^2\left(\frac{1}{n_h} - \frac{1}{N_h}\right)s_{dh}^2} = \text{90 percent margin of error for separate ratio}$$

estimate of the proportion.

Estimation Results

The erroneous payment rate is estimated at 9.5 percent with a margin of error ± 2.1 percent at the 90 percent confidence level.

Compliance with rules and regulations was generally high (85 percent or more), exceptions being: (1) advertise supported services; (2) Link-Up discount; (3) determining consumer qualifications; (4) officer certification; (5) Form 497 submission; and (6) record keeping. See Table 2 for details.

Table 2

LOW INCOME PROGRAM COMPLIANCE*

ASSERTION

A.1	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
LOW INCOME ELIGIBILITY	100%			

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
A.2 OFFER LIFELINE	100%			

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
B.1 ADVERTISE SUPPORTED SERVICES	70.5%	20.7%	8.8%	

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.1.i TIER 1 RATE	90.7%	4.9%	4.4%	

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.1.ii TIER 1 USE OF ILEC RATE	94.7%	2.9%	2.4%	

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.1.iii TIER 2 RATE	88.5%	9.3%	2.2%	

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.1.iv TIER 3 RATE	84.6%	10.3%	5.1%	

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.1.v TIER 4 RATE	93.4%	6.6%		

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.2.i LINK UP DISCOUNT	73.5%	23.6%	2.9%	

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.2.ii LINK UP DISCOUNT - TRIBAL	93.7%	6.3%		

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.3.i SUPPORT OF TOLL ELECTION	87.8%	9.8%	2.5%	

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.3ii NO DEPOSIT FOR LIFELINE	97.3%	2.7%		

	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
C.3.iii				
CLAIMS ONLY INCREMENTAL COST	93.9%	6.1%		
D.1	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
DETERMINATION OF CONSUMER QUALIFICATION	58.9%	32.2%	8.9%	
D.2	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
VERIFY ELIGIBILITY STATISTICALY (NON-MANDATED)	96.0%	4.0%		
D.1.a	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
OFFICER CERTIFICATION (STATE MANDATED)	74.4%	22.7%	2.9%	
D.1.b	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
PROCEDURES FOR QUALIFICATION (NON-MANDATED)	88.2%	11.8%		
D.1.c	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
VERIFY CONTINUED ELIGIBILITY (MANDATED)	86.2%	11.2%	2.6%	
E.1	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
ACCURATE SUBMISSION OF FORM 497	55.6%	26.2%	18.2%	
F.1	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
RECORDKEEPING REQUIREMENTS	62.6%	23.7%	13.7%	
	Compliant	Materially Non-Compliant	Non-Material Non-Compliant	Other
CERTIFICATION FROM RESELLERS	98.4%	1.6%		

* Weighted Percent Totals

Causes of Non-Compliance

When there was non-compliance on any assertion, data were collected on causes of non-compliance. Table 3 contains all 21 possible causes of non-compliance. Data were collected such that, if an auditor found multiple causes of non-compliance, all causes of non-compliance information would be presented.

Table 3

1-Imprecise FCC Rule/s
2-Contradictory FCC Rule/s
3-Overly Complex FCC Rules
4-Disregarded FCC Rule/s
5-Followed State Rule/s (apparent conflict with FCC Rule/s)
6-Followed USAC Procedures (apparent conflict with FCC Rule/s)
7-Inadequate Documentation Retention
8-Inadequate Auditee Processes and/or Polices and Procedures
9-Inadequate Systems for Collecting, Reporting, and/or Monitoring Data
10-Insufficient Resources/Time to Complete Task/Activity
11-Failure to Review/Monitor Work, Material, or Data/Application Submitted by Consultant/Agent
12-Applicant/Auditee Weak Internal Controls
13-Applicant/Auditee Data Entry Error
14-Service Provider Weak Internal Controls
15-Service Provider Data Entry Error
16-Service Provider Error (other)
17-USAC Error
18-SOLIX Error
19-NECA Error
20-Force Majeure (Acts of God and Nature)
21-Other

Table 4

LOW INCOME PROGRAM	REASON FOR NON-COMPLIANCE*																					
Assertion	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
B.1																						
ADVERTISE SUPPORTED SERVICES	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	14	1	0	0	8	0	0	1	6	0	0	0	2	0	0	0	0	0	0	0	0	0
Non-materially non-compliant	4	0	0	0	0	0	0	0	3	0	0	0	0	0	0	0	0	0	0	0	0	1

C.1.i

TIER 1 RATE	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	3	0	0	0	0	0	0	0	1	0	0	1	1	1	0	0	0	0	0	0	0	0
Non-materially non-compliant	2	0	0	0	0	0	0	0	1	1	0	0	1	0	0	0	0	0	0	0	0	0

C.1.ii

TIER 1 USE OF ILEC RATE	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	2	0	0	0	0	0	0	0	1	0	0	0	1	1	0	0	0	0	0	0	0	0
Non-materially non-compliant	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

C.1.iii

TIER 2 RATE	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	5	0	0	0	0	0	0	0	3	1	0	1	1	1	0	0	0	0	0	0	0	0
Non-materially non-compliant	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0

C.1.iv

TIER 3 RATE	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	6	0	0	0	0	0	0	0	3	1	0	1	2	1	0	0	0	0	0	0	0	0
Non-materially non-compliant	3	0	0	0	0	0	0	0	1	2	0	0	0	0	0	0	0	0	0	0	0	0

C.1.v

TIER 4 RATE	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	4	0	0	0	0	0	0	0	1	1	0	0	2	1	0	0	0	0	0	0	0	0

C.2.i

LINK UP DISCOUNT	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	15	0	0	0	0	0	0	1	8	2	0	0	5	1	0	0	0	0	0	0	0	1
Non-materially non-compliant	2	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0

C.2.ii

LINK UP DISCOUNT-TRIBAL	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	2	0	0	0	0	0	0	0	1	0	0	0	2	0	0	0	0	0	0	0	0	0

C.3.i

SUPPORT OF TOLL ELECTION	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	7	0	0	0	0	0	0	0	4	2	0	0	2	1	0	0	0	0	0	0	0	0
Non-materially non-compliant	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0

C.3.ii

NO DEPOSIT FOR LIFELINE	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	2	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0

C.3.iii

CLAIMS ONLY INCREMENTAL COST	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	5	0	0	0	0	0	0	1	3	0	0	0	2	0	0	0	0	0	0	0	0	0

D.1 DETERMINATION OF CONSUMER QUALIFICATION	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	24	2	0	0	7	0	0	10	14	2	0	0	5	0	1	0	0	0	0	0	0	0
Non-materially non-compliant	5	0	0	0	1	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	2

D.2 VERIFY ELIGIBILITY STATISTICALLY

(NON-MANDATED)	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0

D.1.a

OFFER CERTIFICATION (STATE-MANDATED)	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	11	0	0	0	2	0	0	2	10	1	0	0	1	0	0	0	0	0	0	0	0	0
Non-materially non-compliant	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0

D.1.b PROCEDURES FOR QUALIFICATION

(NON-MANDATED)	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	4	1	0	0	2	0	0	2	2	0	0	0	3	0	0	0	0	0	0	0	0	0

D.1.c VERIFY CONTINUED ELIGIBILITY

(MANDATED)	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	5	0	0	0	0	0	0	3	3	0	0	0	1	0	0	0	0	0	0	0	0	0
Non-materially non-compliant	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0

E.1

ACCURATE SUBMISSION OF FORM 497	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	23	1	0	0	5	0	1	0	11	11	0	0	5	1	1	1	0	0	0	0	0	0
Non-materially non-compliant	10	0	0	0	1	0	0	3	1	3	0	1	0	1	0	0	1	0	0	0	0	0

F.1

RECORDKEEPING REQUIREMENTS	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	20	0	0	0	2	0	0	17	3	0	0	0	2	0	0	0	0	0	0	0	0	0
Non-materially non-compliant	7	0	0	0	0	0	0	6	1	0	0	0	1	0	0	0	0	0	0	0	0	0

F.2

CERTIFICATION FROM RESELLERS	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	2
Materially non-compliant	3	0	0	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

* Cause
1-Imprecise FCC Rule/s
2-Contradictory FCC Rule/s
3-Overly Complex FCC Rules
4-Disregarded FCC Rule/s
5-Followed State Rule/s (apparent conflict with FCC Rule/s)
6-Followed USAC Procedures (apparent conflict with FCC Rule/s)
7-Inadequate Documentation Retention
8-Inadequate Auditee Processes and/or Polices and Procedures
9-Inadequate Systems for Collecting, Reporting, and/or Monitoring Data
10-Insufficient Resources/Time to Complete Task/Activity
11-Failure to Review/Monitor Work, Material, or Data/Application Submitted by Consultant/Agent
12-Applicant/Auditee Weak Internal Controls
13-Applicant/Auditee Data Entry Error
14-Service Provider Weak Internal Controls
15-Service Provider Data Entry Error

16-Service Provider Error (other)
17-USAC Error
18-SOLIX Error
19-NECA Error
20-Force Majeure (Acts of God and Nature)
21-Other

**N is the sample size sample size

Causality Code #8: ‘Inadequate auditee processes and/or policies and procedures’ is by far the greatest ‘cause’ of non-compliance. Other frequently cited causes depend on the nature of the rule/regulation.

Qualitative Discussion and Conclusions

The Low Income Program of USF appears to be at risk. The estimated erroneous payment rate is 9.5 percent. There was, however, general compliance with FCC Rules and Regulations (85 percent or more) with several notable exceptions. The percentage of carriers that did not materially comply with the requirement to advertise supported services was 20.7 percent, and the percentage of carriers that non-materially comply with this requirement was 8.8 percent. There was non compliance on Assertion C.2.i which is associated with link-up, and 23.6 percent of carriers were materially non-compliant 2.9 percent of carriers were non-materially non-compliant.

There was non-compliance on Assertion D1 which requires carriers to determine qualifications of consumers. 32.2 percent of carriers were materially non-compliant and 8.9 percent were non-materially, non-compliant. A non-compliance rate of 41.1 percent suggests that there are incentives for both consumers and carriers to unnecessarily transact this subsidized service.

The non-compliance rate on Assertion D1a (officer certification) was relatively high at 25.6 percent of the population of carriers. In addition, the requirement of accurately submitting Form 497 was violated by 44.4 percent of the population of carrier, with material non-compliance at 26.2 percent. Assertion F1 concerns record keeping, and on this rule 37.4 percent of carriers were non-compliant with 23.7 percent materially non-compliant.

Where auditors could render opinions on compliance/non-compliance with FCC rules more frequently observed causes of non-compliance are: Inadequate documentation, inadequate systems for collecting & reporting and inadequate auditee processes; and Applicant/Auditee Weak Internal Controls.

Under the IPIA, estimates of both the erroneous payment rate and amount of erroneous payment are intended guide the Commission in assessing risk that is associated with the Low Income Program. Under IPIA standards, a program is at risk if the erroneous payment rate exceeds 2.5 percent and the amount of erroneous payment is greater than $10 million. To assess compliance and risk, a stratified random sample of 60 SACs was drawn and compliance attestation examinations/audits were completed. The statistical results from this stratified random suggest that the program is at risk, and there are significant administrative problems in the program. As noted above, the erroneous payment error rate is 9.5 percent.