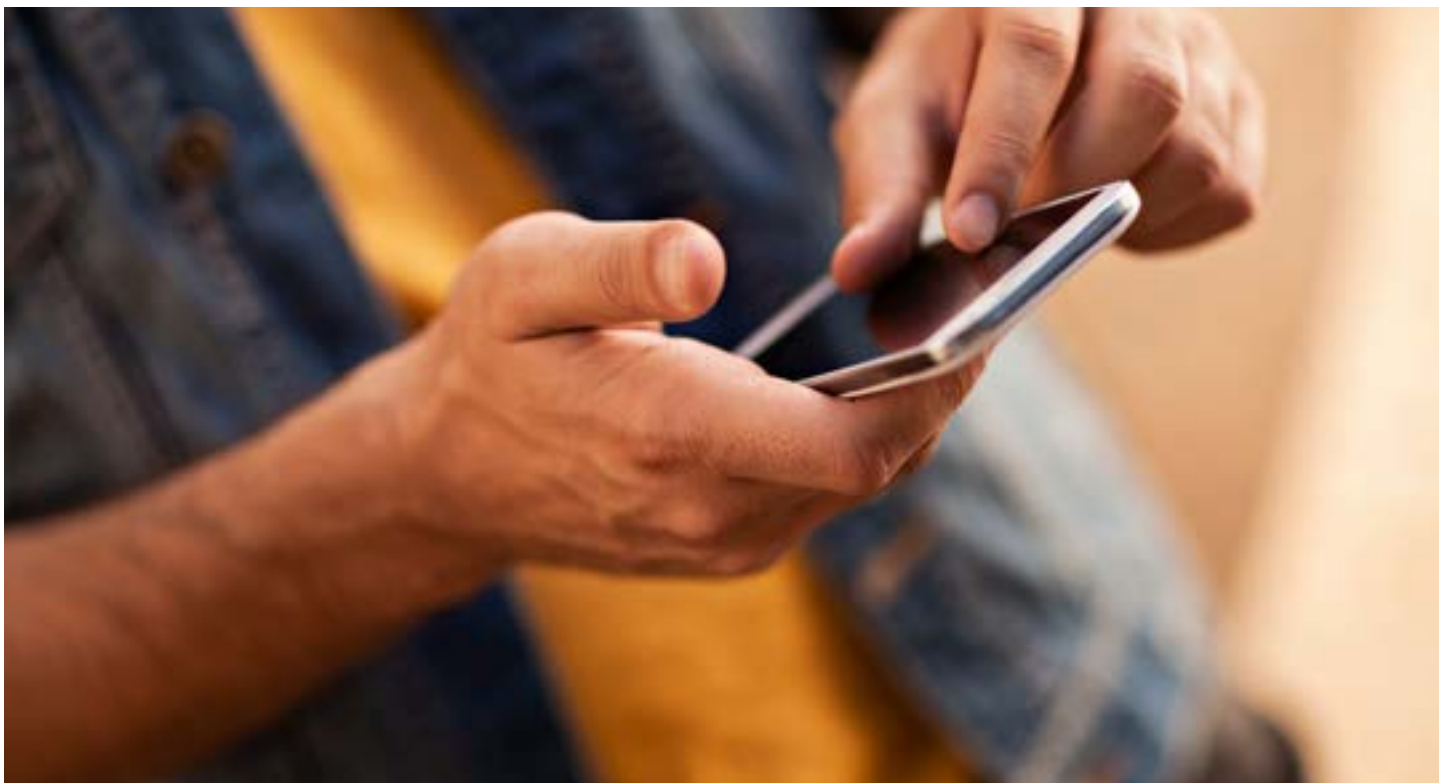


The implications of Lifeline reform



The Federal Communications Commission's (FCC) Lifeline program was launched in 1985 with the intent to provide affordable monthly telephone service to eligible low income consumers. Specifically, the program provides discounts on wireline or wireless services to enable low income consumers to access communications networks for emergency services, connectivity to family, access to health care services, and to communicate to find a job.

Since its inception over 25 years ago, enrollment has continued to increase, providing this necessary service which, along with other Universal Service Fund (USF) support mechanisms, assists with closing the digital divide and providing affordable communications for all Americans. In 2013, there were an estimated 14 million subscribers enrolled in the Lifeline program, and the Universal Service Administrative Company (USAC) had disbursed approximately \$1.8 billion in approved subsidies from the program. Like all government subsidies, the program faces challenges. The FCC has renewed its focus on measures to reduce fraud, waste, and abuse specifically through additional oversight in the form

of audits, fines, and penalties. In fact, the FCC has proposed almost \$100 million in fines, forfeitures and penalties over the fourth quarter of 2013 and the first quarter of 2014 to a dozen companies that allegedly failed to comply with Lifeline program requirements. With recent headlines related to illegal activities in the Lifeline program, the FCC is renewing its focus on preventing fraud, waste, and abuse and it is logical to assume audit and investigative activity will continue or even increase.

In fact, on April 2, 2014 the FCC's Wireline Competition Bureau released the Lifeline biennial audit plan, which requires all Eligible Telecommunications Carriers (ETCs) receiving over \$5 million annually in Lifeline support (at a holding company level) to complete a biennial audit of company-wide compliance with FCC Rules and Orders pertaining to the Lifeline program. The audits are required to be performed by an independent audit firm and will be in the form of agreed-upon procedures (AUPs) consistent with Generally Accepted Government Auditing Standards (GAGAS). This requirement is in addition to the In-depth Data Validations (IDVs) and Program Quality

Assessments (POAs) that the fund administrator, USAC continues to conduct. The FCC's audit plan details specific audit steps and sampling guidelines required for conducting the AUP engagements by accounting firms. A carrier's compliance and the presence of effective internal controls specific to Lifeline rules and requirements will be evaluated within the following components:

(1) Carrier obligation to offer Lifeline, (2) Consumer qualification for Lifeline, (3) Subscriber eligibility determination and certification, and (4) Annual certifications and recordkeeping. Additionally, the following are items to note:

- The audit period covers January 1 through December 31
- The first reports are due April 2, 2015 and biannually thereafter
- The first calendar year subject to audit is 2013

In addition to the audit requirements, the FCC recognized the challenges in determining and resolving duplicate subscriptions in the Lifeline program (and the difficulty for one carrier to determine that existing subscribers and new applicants are not already Lifeline customers of another carrier in violation of the one subscriber per household requirements of the program) and created a National Lifeline Accountability

database (NLAD) in late 2013 (five states launched by the end of 2013 with a nationwide launch completed in 2014), which was launched in April 2014.

The NLAD is an important step in the Lifeline eligibility and enforcement process but does not eliminate the need for carriers to verify eligibility and on an annual basis recertify eligibility of Lifeline program subscribers via certification forms and proof of eligibility.

Given the challenges associated with the program, carriers participating in the Lifeline program must maintain strong internal controls and look for ways to streamline the application, setup, and annual validation processes while adhering to all applicable FCC Rules and Orders. Real penalties and repercussions exist for breakdowns and failures in the process. KPMG's Telecommunications Regulatory Compliance practice is well suited to assist carriers navigate the current regulatory compliance landscape and focus on driving value from required compliance activities. Specifically, services we could perform include Lifeline program process and control assessments, including relevant IT systems; use of data analytics and techniques to proactively prevent and detect fraud, waste, and abuse; and Lifeline compliance audits including, where applicable, the biennial audits as mandated by the FCC.



Contact us

Carl R. Geppert

Partner, Telecommunications Industry Leader

KPMG LLP

T: 303-295-8827

E: cgeppert@kpmg.com

kpmg.com

© 2014 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International. NDPPS 273473