OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20554

December 5, 2016

Hardy Cellular Telephone Company
Attn: Kenneth R. Meyers, CEO
8410 West Bryn Mawr, Suite 700
Chicago, IL 60631

Dear Mr. Meyers:

The Federal Communications Commission (FCC), Office of Inspector General (OIG) audited the FCC Form 499-A, Telecommunications Reporting Worksheet, submitted by Hardy Cellular Telephone Company (Hardy). The form reported Universal Service Fund (USF) contribution revenue information for the calendar year ended December 31, 2013. In addition, the audit included a limited review of Hardy's January 2013 FCC Form 497, Lifeline Worksheet which is used to request reimbursement for participation in the Lifeline Program

The OIG performed this audit consistent with its authority under the Inspector General Act of 1978, as amended, including, but not limited to sections 2(1), 4(a) (l) and (5). The audit is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit.

Attached is the final report of the audit conducted by our office. It incorporates your written response to the draft audit report and the response received from the Universal Service Administrative Company (USAC). This report is intended solely for the information and use of the Universal Service Administrative Company (USAC), the FCC and Hardy; however, to the extent it can be made public, it will be posted to the OIG website.

If you have any questions or concerns regarding this audit report, please contact, Robert McGriff, Assistant Inspector General for Audit at 202-418-0483 or robert.mcgriff@fcc.gov, or Sharon Spencer, Deputy Assistant Inspector General for USF Program Audits at 202-418-0477 or sharon.spencer@fcc.gov,

Sincerely,

David L. Hunt
Inspector General

Attachment: Final Audit Report (Report no. 14-AUD-08-02)

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL

Final Audit Report
Compliance with FCC's USF Contributor Rules
Hardy Cellular Telephone Company

Report No. 14-AUD-08-02
December 5, 2016

FINAL REPORT
[redacted]
May Contain Confidential and Proprietary Information of the Auditee

Background

The FCC established the Universal Service Fund (USF) under the Telecommunications Act of 1996. The USF was established, primarily, to promote the availability of affordable telecommunication services throughout the United States. The USF includes four programs: High Cost; Lifeline; Schools and Libraries; and Rural Healthcare. All companies that provide interstate and international telecommunications services must contribute to the USF.

To account for revenues that are subject to contributions to USF, telecommunication companies must register with the FCC and submit, on a quarterly basis, FCC Form 499-Q, and on an annual basis, FCC Form 499-A, Telecommunications Reporting Worksheet. The FCC tasked the Universal Service Administrative Company (USAC) to manage the USF and collect contributions from telecommunications companies.

Hardy Cellular Telephone Company (Hardy), Filer ID No. 802614, was formed in 1988 and provides wireless services in the state of West Virginia. Hardy is a subsidiary of U.S. Cellular Operating Company and its retail stores are also branded as U.S. Cellular. Hardy runs its operations from U.S. Cellular Operating Company headquarters in Chicago, IL.

Scope and Methodology

The purpose of our audit was to determine the accuracy of revenues and other information Hardy reported on its 2014 FCC Form 499-A for calendar year 2013. We also conducted limited tests of Hardy's January 2013 FCC Form 497, Lifeline Worksheet, to determine the accuracy of the number of subscribers claimed and the Lifeline rate reported. Our tests were limited to verifying the completeness and validity of Hardy's subscriber listing corresponding to its January 2013 FCC Form 497.

Our examination of Hardy's 2014 Form 499-A included:

1. Obtaining an understanding of the processes by which Hardy captures, summarizes and categorizes the revenue reported;
2. Determining the accuracy and classification of the revenues and other information reported on the form;
3. Reviewing Hardy's internal controls for its reported information; and
4. Evaluating its compliance with the FCC's USF contributor rules provided in 47 Code of Federal Regulations (CFR) Sections 54.706 through 54.713 and other applicable rules and orders.

We conducted this performance audit in accordance with generally accepted government auditing standards, also known as the Government Accountability Office Yellow Book.[1] 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 OIG performed this audit consistent with its authority under the Inspector General Act of 1978, as amended, including, but not limited to sections 2(1), 4(a)(1) and (5). The audit is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit. Our examination does not provide a legal determination on Hardy's compliance with specified requirements.

We visited Hardy's headquarters in Chicago, IL, January 26 through 30, 2015, met with the Company's staff and attorney, and reviewed supporting documentation for Hardy's 2014 FCC Form 499-A. We also conducted limited tests of Hardy's January 2013 FCC Form 497, Lifeline Worksheet, to determine the accuracy of the number of subscribers claimed and rate reported for Lifeline reimbursement.

This report is intended solely for the information and use of the FCC, USAC and Hardy. However, to the extent it can be made public, the final report will be posted to the OIG website.

Results of Audit

Our audit identified one finding in which Hardy did not comply with the FCC's USF Contributor rules and one finding in which Hardy did not comply with USF Lifeline program rules. Additionally, our audit identified two conditions that we reported as other matters as opposed to findings, because the materiality did not rise to that of reportable findings. One of the other matters was removed from the audit report based on management's response to the draft audit report.

We found that Hardy's (1) USF related bad debt estimate was not consistent with its reported gross revenues; and (2) some subscriber Lifeline certifications were missing. We reported, as an other matter, that Hardy submitted a revised 2014 Form 499-A shortly after we sent them our audit announcement letter. Hardy's revised 2014 Form 499-A increased its net interstate universal service revenues subject to contributions.

This final audit report incorporates Hardy's written response to the draft audit report, dated April 21, 2016, and the Universal Service Administrative Company (USAC) response received on September 19, 2016. USAC management concurred with both

[1] December 2011 revision, issued by the Comptroller General of the United States.

findings and stated it will ask Hardy to resubmit its 2014 Form 499-A based on its noncompliance with Contributor rules, as discussed in Finding 1. Additionally, USAC will seek the recovery of funds for Hardy's noncompliance with Lifeline program requirements, as discussed in Finding 2. A complete copy of Hardy's and USAC's management response is included in Appendices A and B, respectively.

Finding 1: Bad Debt Estimate not in Proportion with Reported Gross Revenues

Condition: Hardy did not estimate its USF related bad debt expenses on Line 422 in proportion to the USF revenues reported on Line 420 of its 2014 FCC Form 499-A. Hardy's estimate did not include gross revenues for the full calendar year. Our audit found that Hardy, inappropriately, estimated its bad debt expense based on gross revenues reported for a nine month period, January 2013 through September 2013.

When calculating its bad debt expenses reported on Line 422, Hardy categorized its gross revenues as either USF or non-USF related. Next it calculated the percentage of USF related revenues in relation to the total gross revenues and applied the percentage to its total actual bad debt expenses. However, Hardy's calculation was based solely on its gross revenues from January 2013 through September 2013. The calculation did not reflect gross revenues for the entire calendar year of 2013.

Criteria: Title 47 CFR §54.711(a) states contributions shall be calculated and filed in accordance with the Telecommunications Reporting Worksheet, which shall be published in the Federal Register.

Instructions for the 2014 FCC Form 499-A state that uncollectible/bad debt expense reported on Line 422 and associated with the USF contributions base reported on Line 420 must be in proportion with gross revenues.[2]

Cause: Hardy stated it did not realize its methodology for calculating bad debt expense was not in compliance with Telecommunications Reporting Worksheet instructions for the 2014 FCC Form 499-A.

Effect: Hardy's misstatement of its bad debt caused the USF accessible revenues to be, erroneously, understated on its 2014 FCC Form 499-A. Hardy reported that [redacted] percent of its total bad debt was related to USF accessible revenues;, however, the correct percentage was [redacted]. The amount of bad debt reported should have been [redacted] versus the reported amount of [redacted]. Therefore, Hardy over reported USF accessible bad debt expenses by [redacted] on Line 422 of its 2014 FCC Form 499-A.

[2] 2014 Instructions to the Telecommunications Reporting Worksheet Form 499-A, at p. 29.

Recommendation: We recommend that Hardy revise its 2014 FCC Form 499-A to report the correct amount for bad debt expense on Line 422.

Company's Response: Hardy generally agreed with our audit report finding and stated that it has reviewed its procedures for apportioning bad debt expense to ensure that in the future the expense will represent the specific filing period. See Appendix A for Hardy's complete response.

OIG's Response: Hardy's commitment to review of its bad debt expense apportioning procedures is a positive step in ensuring their future FCC Forms 499-A are accurate and complete.

USAC's Response: USAC concurred with our finding and stated that it will send a letter to Hardy requesting a revisions of the 2014 Form 499-A based on our audit finding.

OIG's Comments to USAC's Response: We concur with USAC's corrective action plan.

Finding 2: Missing Lifeline Certifications

Condition: Hardy did not provide requested documentation to support its initial certifications and re-certifications for Lifeline subscribers on its January 2013 Form 497. Accordingly, we could not verify some subscriber addresses. We selected a judgmental sample of 22 of the total 223 Lifeline subscribers claimed on Hardy's January 2013 Form 497. Hardy did not provide evidence for the initial certification for a total of 19 of the 22 sampled subscribers, and did not provide evidence for 2 of the 19 re-certifications. We could not verify the address for 2 of the 22 sampled subscribers because documentation supporting both the initial and re-certifications was not provided.

Criteria: Title 47 CFR §54.410(a) states all telecommunications carriers must implement policies and procedures for ensuring that their Lifeline subscribers are eligible to receive Lifeline services.

Cause: Hardy did not have proper procedures in place to ensure it obtained and maintained documentation for Lifeline subscribers' initial certifications.

Effect: Hardy inappropriately claimed $176 on its January 2013 Form 497 for 19 subscribers for which it did not provide documentation to support their initial certifications and re-certifications.

Recommendation: We recommend that Hardy revise its January 2013 FCC Form 497, eliminate those customers with missing initial certifications and re-certifications, and refund the USF Fund for any Lifeline disbursements for those customers in question.

Company's Response: Hardy did not agree with the audit report finding. Hardy stated that although Lifeline is a Federal Program, individual States have the right to oversee the Program and the state of West Virginia has chosen to be more involved in the administration of the Lifeline Program.

Prior to the FCC's 2012 Lifeline Reform Order[3], the West Virginia Public Service Commission (PSC) designated the West Virginia Department of Health and Human Resources (DHHR) to oversee the administration of the Federal Lifeline Program. Under the direction of the DHHR, West Virginia's eligible telephone companies (ETCs) were only required to submit potential Lifeline subscribers' names and social security numbers to the DHHR via facsimile. In turn, the DHHR would send the ETCs, via facsimile, positive or negative confirmations for the potential subscribers' enrollment into the Lifeline Program. Hardy stated this process accounted for 15 of the 19 missing initial subscriber certifications because the subscribers were enrolled prior to the FCC's 2012 Lifeline Reform Order, which became effective June 1, 2012. Further, Hardy stated it only applied the Lifeline discounts after it received positive confirmations from the DHHR and that Hardy is currently reviewing its document scanning and retention processes for those subscribers with unexplained, missing documentation. See Appendix A for Hardy's complete response.

OIG's Response: We maintain our finding and recommendation despite Hardy's response. Prior to the 2012 Lifeline Reform Order, ETCs were required to either follow the Lifeline Program requirements at the state level or follow the Federal Lifeline Program requirements if the ETC operated in a Federal default state.[4] West Virginia followed the Lifeline Program requirements at the state level prior to the 2012 Lifeline Reform Order.[5]

Based on Hardy's response, we researched the West Virginia PSC rules and contacted the West Virginia PSC to verify that Hardy, in fact, followed the West Virginia Lifeline Program rules prior to the 2012 Lifeline Reform Order. We found, based on West Virginia PSC rules, prior to the 2012 Lifeline Reform Order, DHHR provided the initial certification of the subscriber's eligibility for the Lifeline Program. However, Hardy could not provide any support from the DHHR showing its initial approval of the 15 subscribers in question. Also, documentation supporting initial certifications was missing for four subscribers that were enrolled in the Program after the FCC 2012 Lifeline Reform Order's effective date of June 1, 2012. Due to the Hardy's general lack of supporting documentation, the FCC-OIG could not verify that initial certifications were

[3] *Lifeline and Link Up Reform and Modernization*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656 (2012).
[4] Title 47 CFR §54.409(a) and (b), October11, 2011 Edition
[5] *Lifeline and Link Up Reform and Modernization*, Notice of Proposed Rulemaking, 27 FCC Rcd 2770, 2777 at para. 19 (Released March 4, 2011).

properly obtained for any of the 19 subscribers in question, or the 2 subscribers that were missing re-certifications.

USAC's Response: USAC concurred with our audit finding and will seek recovery from Hardy for the certifications in question.

OIG's Comments: We concur with USAC's corrective action plan.

Other Matters

We identified two "instances of Hardy's noncompliance with the USF contributor and Lifeline mechanisms that did not rise to the level of a reportable finding. Therefore we reported the noncompliance as other matters.

Other Matter 1: Revision to Form 499-A Submitted Shortly after Audit Announcement

Hardy revised its 2014 FCC Form 499-A submission to USAC shortly after we announced our audit. Prior to the revision of its FCC Form 499-A, Hardy had underreported its revenues subject to USF contributions by [redacted]. Hardy submitted to USAC an initial (Initial) and revised (Revision 1) 2014 FCC Forms 499-A, both dated March 20, 2014. Shortly after our audit was announced, the Hardy submitted a second revised 2014 FCC Form 499-A (Revision 2) to USAC. Revision 2 increased Hardy's net interstate universal service contribution revenues by [redacted]. Our audit announcement letter was dated September 22, 2014, and Revision 2 of Hardy's FCC Form 499-A was dated October 17, 2014. The table below summarizes the net interstate universal service contribution revenues reported on the initial and revised forms. [6]

Table: Net Interstate Universal Service Contributions Reported of Hardy Cellular Telephone Company's Initial and Revised 2014 Forms 499-A

2014 Form 499-A	Initial *(a)*	Revision No. 1 *(b)*	Revision No. 2 *(c)*	Difference Reported in Revision 1 *(b-a)*	Difference Reported in Revision 2 *(c-b)*
Net Interstate Universal Service Contribution Revenues Reported	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[6] Per Line 423(b) on the 2014 FCC Form 499-A

Company's Response: Hardy stated that it reviewed its 2014 FCC Form 499-A in preparation for the audit and uncovered a calculation error that was within the 2014 FCC Form 499-A revision period. Hardy's complete response is provided in Appendix A.

OIG's Response: FCC-OIG's audit announcement alone should not have precipitated the review and resulting revision to the Hardy's 2014 FCC Form 499-A.

Other Matter 2: Presentation of Federal Lifeline Credit on Subscriber Invoices

This matter was removed from the draft report after reviewing Hardy's management response. No corrective action is recommended for this matter.

Our draft audit report noted that Hardy reported a Lifeline credit of $11.25 on its subscriber invoices, instead of $9.25, the federal mandated amount. The $11.25 credit represents a combination of a $2.00 state Lifeline credit and the $9.25 federal mandated Lifeline credit. Because no Lifeline program rule violation was identified, we removed the information from the final audit report.

U.S. Cellular
Hardy Cellular Responses to 2014 Form 499-A Audit
April 21, 2016

Response to Finding 1

Hardy Cellular Telephone Company has reviewed its procedures for apportioning bad debt and has taken steps to ensure future filings include filing period specific amounts.

Response to Finding 2

Lifeline is a Federal program, but the individual States have the right to oversee the administration of the Lifeline program. That oversight often includes determining initial eligibility, periodically recertifying participants, mandating State discounts in excess of the Federal discount, and setting other program rules. The State of West Virginia is a State that has chosen to be more involved in the administration of the Federal Lifeline program.

The West Virginia Public Service Commission has designated the West Virginia Department of Health and Human Resources (DHHR) to be the West Virginia agency that oversees the administration of the Federal Lifeline Program. Hardy Cellular Telephone Company was granted Eligible Telecommunications Carrier (ETC) status in West Virginia in 2008 and agreed to follow Lifeline program rules mandated by DHHR.

Under the West Virginia Administrative Code ("PSC Rules"), Hardy Cellular Telephone was required to submit, via facsimile machine only, the names and social security numbers of potential Lifeline participants to DHHR for initial inclusion in the Lifeline subscriber rolls. After eligibility review by DHHR personnel, a positive or negative response was returned, also via facsimile machine.

Before the FCC's new Lifeline certification rules became effective June 1, 2012, U.S. Cellular and other Lifeline providers in West Virginia were subject to the certification and verification requirements in the PSC Rules. *See* 47 C.F.R. Section 54.410(c)(1) (pre-2012 version). Under the PSC Rules, DHHR's approval of Lifeline candidates was considered by the company to be a valid initial certification of Lifeline eligibility. Only upon receipt of positive confirmation from DHHR would Lifeline Discounts be applied a customer's account.

Of the 22 sampled subscribers, 15 had Lifeline Discount effective dates prior to June 1, 2012. Hardy Cellular Telephone was not required to obtain initial certification documents from those customers under the FCC's rules then in effect; instead, it verified their eligibility through the DHHR process set forth in the PSC Rules. Accordingly, Hardy Cellular Telephone was in compliance with the eligibility verification and certification requirements with respect to those subscribers.

With respect to the remaining seven subscribers in the sample, those with Lifeline Discount effective dates after June 1, 2012, recertification forms could not be located for one subscriber. The existence of a recertification form dated after June 1, 2012 indicates that initial Lifeline certification was before June 1, 2012 and was performed via the DHHR approval process. Regarding missing documentation, the company is reviewing its document scanning and retention process to ensure better compliance in the future.

Response to Other Matter 1

In preparation for the announced audit, Hardy Cellular Telephone Company reviewed its Form 499-A, discovered a calculation error and revised the form within the open revision period.

Response to Other Matter 2

As noted in the response to Finding 2 above, the West Virginia Public Service Commission properly exercises its authority over the Federal Lifeline Program. Under this authority, the West Virginia Public Service commission required Hardy Cellular to offer an additional $2.00 state level discount. Hardy Cellular does not claim this additional amount on its FCC Form 497s and is bound to follow the Program rules as set by the State of West Virginia.

[redacted]

USAC
Universal Service Administrative Company

Via Electronic Mail

September 19, 2016

Mr. Robert McGriff
Assistant Inspector General - Audits
Office of Inspector General
Federal Communications
Commission 445 12th Street, SW
Washington, D.C. 20554

Re: Comments of the Universal Service Administrative Company on the Office of Inspector General's Draft: Audit Report No. (Report No. 14-AUD-08-02)

Dear Mr. McGriff:

The Universal Service Administrative Company (USAC) is providing its response for the above-referenced draft audit report regarding Hardy Cellular Telephone Company (Company). The Federal Communications Commission (FCC) Office of Inspector General (OIG) included two finding in the draft audit report. Specifically, the auditors determined that the Company's: (1) bad debt expenses were not in proportion to the reported gross revenues and (2) subscriber Lifeline certifications were missing, as required by FCC rules. USAC's responses to these two findings are provided below.

USAC Management Response to Finding One: Bad Debt Estimate not in Proportion with Reported Gross Revenues

USAC management concurs with this finding. By separate letter, USAC will provide the Company with instructions for correcting certain FCC Form 499-A filings based on the finding.

[redacted]

USAC Management Response to Finding Two: Missing Lifeline Certifications

USAC management concurs with this finding and will seek recovery of $176. Please let us know if you have any questions or need further information.

Sincerely,

//s//

Michelle Garber
Vice President of Lifeline Program

David Case
Vice President of Finance and Chief Financial Officer

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