

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: November 19, 2007
TO: John E. Mann, Professional Accountant Specialist, Division of Competitive Markets & Enforcement
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: ~~Undocked:~~ ^{080065-TX} Company Name: Vilaire Communications Inc. (VCI);
Audit Purpose: Audit The Low Income USAC Programs;
Audit Control No: 07-250-1-2

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to me for distribution. There are confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. Stan Efferding
Secretary & Treasurer
Vilaire Communications, inc.
P.O. Box 98907
Lakewood, WA 98496

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tallahassee District Office

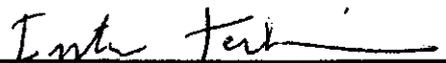
VILAIRE COMMUNICATIONS, INC. (VCI)

LOW INCOME BENEFICIARY AUDIT

THIRTEEN MONTH PERIOD ENDED JUNE 30, 2007

UNDOCKETED 080065-TX

AUDIT CONTROL NO. 07-250-1-2


Intesar Terkawi, Audit Manager


Lynn M. Deamer, Audit Supervisor

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

November 5, 2007

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Competitive Markets and Enforcement in its audit service request. We have applied these procedures to the schedules prepared by Vilaire Communications, Inc. (VCI) in support of its filing for Reimbursement from the Universal Service Fund.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use. There are confidential workpapers in this audit.

OBJECTIVES and PROCEDURES

VERIFICATION OF FILING WITH USAC

Objective: - To determine if the amounts reported for reimbursement from the Universal Service Fund are supported by the Company's books and records for the period from June 1, 2006 – June 30, 2007.

Procedures: - Auditor recalculated the amounts on the Forms FCC 497 by multiplying the number of customers on the subscriber listings by the approved rate for the period from June 1, 2006 – June 30, 2007. Auditor reconciled the number of customers shown on the Forms FCC-497 to the number of customers on the subscriber listings for each month of the audit period. Auditor reconciled the amounts on the Forms FCC-497 to the FPSC Order No. PSC-06-0436-PAA-TX, issued May 22, 2006. Auditor reconciled the rate on the thirteen months Forms FCC-497 to tariff. Audit Finding No. 2 discusses the problems of reconciling the Forms FCC-497 to the general ledger, to the Regulatory Assessment Fee form filed with this Commission for 2006, the FCC Forms 499-Q, and the FCC 499A.

ADVERTISEMENT

Objective: - To determine if the company advertised for the LifeLine and LinkUp programs, and to examine the advertisement for the different types of services and service rates it offers for the period from June 1, 2006 – June 30, 2007.

Procedures: - Auditor recalculated the amounts spent for advertisement for the LifeLine and LinkUp programs for the period from June 1, 2006 – June 30, 2007 from the invoices. Auditor obtained the text the company uses for advertisement. Auditor could not reconcile the amount of advertisement to the general ledger, as the company does not keep separate records of advertisement expenses per state. The company uses three TV stations to advertise for the LifeLine and LinkUp programs.

TERMINATION

Objective: - To determine if the company allowed the subscribers 60 days grace period following the date of impending termination letter to demonstrate continued eligibility as per Section 364.10 (2), Florida Statutes "An eligible telecommunication carrier shall allow a subscriber 60 days following the date of the pending termination letter to demonstrate continued eligibility".

Procedures: - Auditor obtained a document from the company stating that VCI would send a customer a separate letter from the monthly bill informing the customer of the termination, and give the customer 60 days to appeal. The auditor requested the company to provide a list of customers that were terminated during our audit period, a copy of the termination letters, and the next three bills subsequent to the termination letters of each customer terminated. The company responded that no Florida customers had been terminated for ineligibility due to the fact that the company has not been in Florida for an entire year. The company's first verification of continued eligibility for Florida customers will be conducted in January of 2008.

LINE COUNT

Objective: - To verify the line count and the amounts shown for each period on Forms FCC-497. To confirm that duplicate telephone numbers were not included in the subscriber listings, nor that the Carrier misclassified single-line businesses, multi-line business and residential for the period from June 1, 2006 -- June 30, 2007.

Procedures: - Auditor recalculated the amounts shown on the Forms FCC-497. Auditor verified the phone numbers on the subscriber listings for LifeLine and LinkUp programs for duplicity. Audit Finding No. 3 discusses the fact that there are 1,092 duplicate phone numbers in the LinkUp program subscriber listing for the period from June 1, 2006 – June 30, 2007. Auditor obtained a document from the company stating that all subscribers are single line residential.

TOLL LIMITATION SERVICE

Objective: - To verify the reasonableness of the submitted incremental costs, along with the evidence that the choice to have toll limited service is actually being selected by the particular Low Income Consumer and is not being required by the Carrier. To verify that incremental costs do not include joint and common costs for the period from June 1, 2006 – June 30, 2007.

Procedures: - Auditor recalculated the incremental costs for toll limitation services reported on Forms FCC-497. Auditor tested the months of June 2006, July 2006, and May 2007. Auditor obtained the recurring and the non-recurring costs of the company's sole underlying carrier. The auditor confirmed with the company that the toll limitation service is being selected by the customer, and is not required by the Company.

AUDIT FINDING NO. 1

SUBJECT: BOOKS AND RECORDS

STATEMENT OF FACT: Per FCC Rule 47 CFR 54.417 Recordkeeping requirements:

“Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the LifeLine/ LinkUp programs for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request”

RECOMMENDATION: Audit staff requested detailed documentation to support the dollar amounts shown on FCC Form 499Q, and FCC Form 499A. Company responded “ VCI cannot comply with this request. As is explained ..., data reported on FCC Forms 499Q and 499A are comprised of aggregate figures, including data from all states in which VCI provides service. Forms 499Q and 499A do not provide for the reporting of data on a state-by-state basis.” FCC Form 499Q is filed quarterly and reports data (such as Interstate revenues and International revenues) in the aggregate for each reporting period. FCC-Form 499A reports revenues from all sources annually.

Audit staff requested detailed documentation to support the dollar amount shown on FCC Form 497. This is a monthly form reporting number of customers multiplied by tariff rates to obtain an amount to be reimbursed by the USAC. Company provided subscribers listings as support for number of customers reported and a general ledger as a support for the dollar amount. Auditor traced the revenue reported on this form to this general ledger provided for June 2006 and July 2006. Auditor was not able to reconcile the revenue reported on this form to this general ledger for August 2006 through June 2007. The auditor requested an explanation but did not receive one for the discrepancy between general ledger amounts and the amounts reported on the FCC Form 497.

Audit staff requested and was provided detailed documentation (invoices) to support the dollars spent on advertising for each of the LifeLine/LinkUp programs. Audit staff requested general ledger support for the amount of advertisement. The Company was unable to provide this because the records for advertisement costs per state are not kept.

Audit staff requested the company to provide support for the revenues reported on the Regulatory Assessment Fee return filed with this Commission for 2006. The Company did not provide documents to support the Regulatory Assessment Fee form filed with this Commission for 2006 and stated that “ Revenues from customers for the year 2006 were correctly reported on the RAF.”

AUDIT FINDING NO. 2

SUBJECT: FILING WITH USAC AND FPSC

STATEMENT OF FACT: The Company was reimbursed by USAC in the amount of \$234,901 for LifeLine, LinkUp, and Toll Limitation Service for the period from June 1, 2006 - December 31, 2006. The Regulatory Assessment Fee form filed with this Commission for the year 2006 reports revenue of \$64,449.

Rule 25-4.0161, Florida Administrative Code, requires each company to remit a fee based upon its gross operating revenue derived from intrastate business.

RECOMMENDATION: The auditor was not able to reconcile the amounts reported on the Forms FCC-497 to the amount of revenue reported on the 2006 annual RAF return. The company was not able to provide the documents to support the revenue on the RAF return. The company's response was that the revenue reported on the 2006 RAF annual return filed with Florida Public Service Commission was correct, and the amounts reported on Forms FCC-497 were reimbursements for LifeLine, LinkUp programs, and Toll Limitation Service costs.

AUDIT FINDING NO. 3**SUBJECT: LINE COUNT**

STATEMENT OF FACT: On the Forms FCC-497 filed with USAC, the company reported the following number of linkups each month. The USAC reimbursed VCI \$30 per each connection.

Month	Number of LinkUp Connections	Unit Reimbursement by USAC	Amount Reimbursed by USAC
October, 2006	233	\$30	\$6,990
December, 2006	1,198	\$30	35,940
April, 2007	1,345	\$30	40,350
May, 2007	1,095	\$30	32,850
June, 2007	951	\$30	28,530
Total	16,702		\$144,660

RECOMMENDATION: The audit staff reviewed the phone numbers reported on the subscribers listings for the LinkUp program. As shown on the chart below, the auditor found 1,092 duplicates, or instances where the phone number was repeated in the same month.

Month	Number of Duplicate LinkUp Connections	Unit Reimbursement by USAC	Amount Reimbursed by USAC
October, 2006	1	30	\$30
December, 2006	501	30	15,030
April, 2007	44	30	1,320
May, 2007	45	30	1,350
June, 2007	501	30	15,030
Total	1,092		\$32,760