the classification of the private line revenue at issue as jurisdictionally interstate is appropriate.
Criteria
The Instructions to the 2009 FCC Form 499-A (Instructions) state:

"Line 303 and Line 404 – Monthly service, local calling including message and local toll charges, connection charges, vertical features, and other local exchange services should include the basic local service revenues...." 2009 FCC Form 499-A Instructions, § III.C.4 at 25, ¶ 2 (Instructions for Lines 303 and 404).

"Line 305 and Line 406 – Report on Lines 305 and 406 revenues from offering dedicated capacity between specified points even if the service is provided over local area switched MPLS, ATM, or frame relay networks.” 2009 FCC Form 499-A Instructions, § III.C.4 at 26, ¶ 3.

"Line 314 and Line 417 – All other long distance services should include all other revenues from providing long distance communications services....Line 314 and Line 417 should include switched data, frame relay and similar services where the customer is provided a toll network service rather than dedicated capacity between two points.” 2009 FCC Form 499-A Instructions, § III.C.4 at 29, ¶ 1 (“Instructions for Lines 314 and 417”).

"Gross revenues include account set-up, connection, service restoration, termination and other non-recurring charges. These charges should be reported on the same line that the filer reports any associated recurring revenue. For example, an early termination charge for an interstate private line service would be reported as interstate revenue on Line 415.” 2009 FCC Form 499-A Instructions, § III.C.2 at 20, ¶ 2 (“Instructions for non-recurring charges”).

Condition
In order to verify that the revenue reported on Line 418.3 was non-telecommunications revenue, IAD obtained a listing of the products reported on Line 418.3 and analyzed the listing. As a result of the testing, IAD identified the following products, which were reclassified to telecommunications lines on the Carrier’s 2009 FCC Form 499-A:

Local Calling Revenue:
IAD identified several local calling products with an intrastate jurisdiction which were reported as non-telecommunications revenue including:

- PRI T1 Install (general ledger (G/L) account 503925) – The Carrier reported ________ , which represents revenue related to the physical installation of local loops. IAD determined that ________ is related to exempt resellers and
reclassified this revenue to Line 303.2. The remainder of the revenue, [redacted], was reclassified to Line 404.3 (see above: Instructions for Lines 303 and 404).

• TecPath Install (G/L account 503926) – The Carrier reported [redacted] which represents revenue related to the physical installation of local loops. IAD determined that [redacted] is related to exempt resellers reclassified this revenue to Line 303.2. The remainder of the revenue, [redacted], was reclassified to Line 404.3 (see above: Instructions for Lines 303 and 404).

• Local Loop Install (G/L account 503937) – The Carrier reported [redacted] which represents revenue related to the physical installation of local loops. IAD determined that [redacted] is related to exempt resellers and reclassified this revenue to Line 303.2. The remainder of the revenue, [redacted], was reclassified to Line 404.3 (see above: Instructions for Lines 303 and 404).

• T1 Install (G/L account 503939) – The Carrier reported [redacted] which represents revenue related to the physical installation of local loops. IAD determined that negative [redacted] (i.e., the Carrier over-reported revenue) is related to exempt resellers and reclassified this revenue to Line 303.2. The remainder of the revenue, [redacted], was reclassified to Line 404.3 (see above: Instructions for Lines 303 and 404).

• Miscellaneous NRC Install Charges (G/L account 504920) – The Carrier reported [redacted], which represents revenue related to installation of local wholesale and Advantage Business Lines. Advantage lines are part of the Business Lines offering, which is an entirely local service. IAD determined that [redacted] is related to exempt resellers and reclassified this revenue to Line 303.2. The remainder of the revenue, [redacted], was reclassified to Line 404.3 (see above: Instructions for Lines 303 and 404).

• Miscellaneous Income – CCS (G/L account 507413) – The Carrier reported [redacted], which represents revenue related to the Carrier’s Camps Link services. This is a purely local voice calling service. IAD reclassified this revenue to Line 404.3 (see above: Instructions for Lines 303 and 404).

Private Line Revenue:
The Carrier reported [redacted] from G/L account 501400, Miscellaneous Nonrecurring Install Charges. IAD obtained a product description from the Carrier, which indicates that this revenue relates to the installation of Point to Point services, as well as Multiprotocol Label Switching (MPLS) services. Revenue from private lines should be reported on Lines 305 and 406 (see above: Instructions for Lines 305 and 406) as follows:

• IAD determined that [redacted] is related to exempt resellers and reclassified this revenue to Line 305. IAD applied the audited private line jurisdiction of 67.36% interstate, or [redacted]
The remainder of the revenue, was reclassified to Line 406. IAD applied the audited private line jurisdiction of 67.36% interstate, or 

Circuit Switched Data:
The Carrier reported from G/L account 501015, Circuit Switched Data. IAD was informed that this product represents data sent over switched circuits. IAD requested additional information from the Carrier, but no additional information was provided. As a result, IAD reclassified this product to Line 417, “All other long distance services.” IAD applied the audited form jurisdiction from products testing and allocated 36.20% as interstate revenue and 3.71% as international revenue, or and , respectively (see above: Instructions for Lines 314 and 417).

**Cause**
The Carrier was unaware of the proper FCC Form 499-A reporting requirements for its telecommunications and non-telecommunications revenues.

**Effect**
The audited Block 3 and Block 4 FCC Form 499-A lines are provided below:

<table>
<thead>
<tr>
<th>2009 Form 499-A Line</th>
<th>Total Amount Reported</th>
<th>Interstate Amount Reported</th>
<th>International Amount Reported</th>
<th>Total Amount Audited</th>
<th>Interstate Amount Audited</th>
<th>International Amount Audited</th>
<th>Potential Effect on Contribution Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>303.2</td>
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<td>418.3</td>
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<tr>
<td><strong>Total Potential Effect on Contribution Base</strong></td>
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</table>

**Recommendation**
IAD recommends that the Carrier obtain a better understanding of the FCC Form 499-A revenue reporting Instructions. The Carrier should re-file its 2009 FCC Form 499-A to accurately report its telecommunication and non-telecommunications revenues. Any filings where similar misclassifications may have occurred should also be re-filed and the revenue reported on the appropriate line items of the applicable FCC Form(s) 499-A.

**Carrier’s Response**

*Local Calling Revenue*

PAETEC has no issue with the change of the installation charges to associated local telecommunications service.
**Private Line Revenue**

PAETEC has no issue with the change of miscellaneous nonrecurring install charges to their associated exempt or non-exempt categories. However, PAETEC does dispute the audit percentage of 67.36%, as described in greater detail with regards to PAETEC’s reporting of Private Line revenue, which is incorporated by reference.

**Circuit Switched Data**

PAETEC cannot confirm that USAC’s analysis is correct, as PAETEC cannot confirm that these revenues are indeed related to a telecommunications service. In addition, PAETEC notes that the interstate percentage applied is incorrect because it incorporates a private line calculation which is both incorrect (as noted above), and also inappropriate. Switched services and non-switched services have their jurisdiction determined by two different means, and thus it is not appropriate to incorporate switched and non-switched services together in determining a default jurisdictional breakout. PAETEC believes these percentages should be separately calculated.

**USAC IAD Response**

*Private Line Revenue*

IAD addressed the Carrier’s response related to IAD’s use of the audited private line interstate percentage of 67.36% as part of IAD’s response to the Block 3 and Block 4 Products and Jurisdiction Detailed Audit Finding.

*Circuit Switched Data*

As explained in the Condition of this finding, the Carrier did not provide IAD with additional product details when requested. In the Carrier’s Response, the Carrier again states it “cannot confirm that these revenues are indeed related to a telecommunications service.” The Carrier is unable to offer support that will justify the original classification as non-telecommunications revenue.

In addition, the Carrier challenges IAD’s interstate percentage as being inappropriate for this product. However, because the Carrier is unable to identify or provide any additional details, IAD believes the audited form jurisdiction from products testing, 36.20% interstate and 3.71% international, represents a reasonable method for calculating how this product should be reported on the FCC Form 499-A.

**USAC Management’s Response**

USAC management concurs with USAC IAD’s finding.

*Circuit Switched Data*

USAC management agrees with PAETEC that switched services and non-switched services have different paths for determining jurisdiction. However, when determining the jurisdiction of a specific product it is the particular characteristics of the product that
ultimately determine its jurisdiction. Local switched service is predominately intrastate. Switched toll service may be predominately interstate and international. As noted in the Carrier's response, the Carrier has not been able to provide IAD with any information about its Circuit Switched Data revenue, such as whether the product is a telecommunications product, or whether it is predominately local or predominately long distance. Because of the lack of information regarding this product, USAC management agrees with IAD that using the average jurisdictional breakout for all of the Carrier's products is appropriate.
PAETEC Communications, Inc.
Filing Year 2009
Detailed Audit Finding #3
Bad Debt

Criteria
The Instructions to the 2009 FCC Form 499-A (Instructions) state:

"Filers report total uncollectible revenue/bad debt expenses on Lines 421 and 422. Filers that maintain separate detail of uncollectibles by type of business should rely on those records in dividing uncollectible expense between carrier’s carrier, contribution base and other revenues, and for dividing uncollectibles associated with contribution base revenues between intrastate, interstate, and international categories. Filers that do not have such detail should make such assignments in proportion to reported gross revenues.” 2009 FCC Form 499-A Instructions, § III.C.3 at 24, ¶ 2.

"Line 421 – Show the uncollectible revenue/bad debt expense associated with gross billed revenues amounts reported on Line 419….Reported uncollectible amounts should be the amount reported as bad debt expense in the filer’s income statement for the year.” 2009 Form 499-A Instructions, § III.C.5 at 30, ¶ 5.

"Line 422 – Show the portion of the uncollectible revenue/bad debt expense reported on Line 421 that is associated with just the universal service contribution base amounts reported on Line 420. Filers that maintain separate detail of uncollectibles by type of business should rely on those records in determining the portion of gross uncollectibles reported on Line 421 that should be reported on Line 422. Filers that do not have such detail should make such assignments in proportion to reported gross revenues.” 2009 Form 499-A Instructions, § III.C.5 at 30, ¶ 6.

Condition
The Carrier did not report any bad debt expense on Lines 421 and 422 of its 2009 FCC Form 499-A, but it did report [redacted] of bad debt expense in its 2008 general ledger. IAD used the amount reported in the 2008 general ledger as the Carrier’s total bad debt expense on Line 421. IAD calculated Line 422, bad debt expense associated with the universal service contribution base, based on the proportion of total revenue associated with the contribution base on the audited Lines 419 and 420. The calculation resulted in 76.62% of bad debt associated with the contribution base, or [redacted].

In addition, IAD allocated bad debt expense on Lines 421 and 422 among the intrastate, interstate, and international categories in proportion to the audited gross revenue amounts on Lines 419 and 420. On Line 421, IAD applied interstate and international percentages
of 31.99% and 3%, or \[ \text{[Redacted]} \] and \[ \text{[Redacted]} \] respectively. On Line 422, IAD applied interstate and international percentages of 36.06% and 3.69%, or \[ \text{[Redacted]} \] and \[ \text{[Redacted]} \], respectively.

**Cause**

The Carrier did not complete bad debt expense lines when preparing its 2009 FCC Form 499-A because the preparer originally believed that bad debt amounts were included within the revenues mapped to the FCC Form 499-A. This error was recognized during the course of the audit and brought to IAD’s attention.

**Effect**

The effect of this finding resulted in an overstatement of the Carrier’s 2009 contribution base as detailed below:

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<th>Potential Effect on Contribution Base</th>
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<td>421</td>
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</tbody>
</table>

**Recommendation**

IAD recommends that the Carrier re-file its 2009 FCC Form 499-A to accurately report its bad debt expense.

**Carrier’s Response**

PAETEC agrees that it did not report a bad debt expense on Lines 421 and 422 of the 2009 originally filed report, and will revise accordingly in its filings.

**USAC Management’s Response**

USAC management concurs with USAC IAD’s finding.
PaeTec Communications, Inc.  
Filing Year 2009  
Detailed Audit Finding #4  
Total Revenue

Criteria  
The Instructions to the 2009 FCC Form 499-A (Instructions) state:

- "The reporting entity must report gross revenues from all sources, including non-regulated and non-telecommunications services on Lines 303 through 314 and Lines 403 through 418 and these must add to total gross revenues as reported on Line 419." 2009 FCC Form 499-A Instructions, § III.C.2 at 20, ¶ 2.

- "Line 418 should include revenues from the sale, lease, installation, maintenance, or insurance of customer premises equipment (CPE)." 2009 FCC Form 499-A Instructions, § III.C.4 at 29, ¶ 3.

Condition  
The Carrier excluded revenue, totaling [REDACTED] related to the sale of equipment, from its 2009 FCC Form 499-A. This revenue was generated by one of its divisions, Integrated Solutions Group (ISG). IAD noted that this revenue should have been included in the Carrier's total revenue and reported on Line 418.3.

Cause  
The Carrier was unaware that, for FCC Form 499-A reporting purposes, the revenue earned by its ISG division was part of the Carrier's total revenue, and was not the revenue of its separate entity.

Effect  
Although this finding does not have an effect on the Carrier's 2009 FCC Form 499-A contribution base, it resulted in an increase of [REDACTED] to Line 418.3

Recommendation  
The Carrier should re-file its 2009 FCC Form 499-A to include the revenue earned by ISG in its total revenue. In addition, the Carrier should also re-file any filings where similar errors may have occurred to accurately report its total revenue.

Carrier's Response  
PAETEC has no disagreement with including the excluded revenue.

PAETEC REQUESTS THIS PARAGRAPH TO BE ADDED AS A RESPONSE TO THE SUMMARY.
The Audit Report fails to note that PAETEC has made a revision to its Form 499-A on March 31, 2010. While PAETEC has no objection to the audit being conducted on the original Form 499-A, the report should note that the actual calculation of additional contribution will differ from the report because of the previous revision.

USAC IAD Response
IAD announced the audit of the Carrier’s 2009 FCC Form 499-A on October 14, 2009. The Carrier’s revised 2009 FCC Form 499-A was filed on March 31, 2010, five months after the audit commenced. In order to complete the audit in an efficient manner, IAD continued to test the original FCC Form 499-A rather than re-perform audit procedures on revisions submitted during the course of the audit.

USAC Management’s Response
USAC management concurs with USAC IAD’s finding.
PacTec Communications, Inc.
Filing Year 2009
Detailed Audit Finding #5
Reseller USF Recovery Charges

Criteria
The Federal Communications Commission’s (FCC or Commission) rules state:

“Federal universal service contribution costs may be recovered through interstate telecommunications-related charges to end users.” 47 C.F.R. § 54.712(a).

Condition
IAD reviewed the reseller listing provided by the Carrier, which contained detailed information for each reseller customer whose revenue was reported in Block 3 as carrier’s carrier revenue. Of the 117 resellers classified within Block 3, IAD selected 48 reseller customers for testing which represented over 80% of the reseller-generated revenue reported in Block 3 of the Carrier’s 2009 FCC Form 499-A. IAD requested two monthly invoices for each of the 48 reseller customers.

Upon review of the reseller invoices, IAD noted that federal USF charges were assessed on 27 of the 48 reseller customers. Although the Carrier’s records indicate that it has refunded some of the charges, not all reseller customers received a refund.

Cause
The Carrier informed IAD that the 27 customers identified as testing exceptions primarily represented one of two situations. First, the Carrier reported its Voice over Internet Protocol (VoIP) revenue under the belief that all VoIP revenue should be reported in Block 4, even revenue from valid resellers whose revenue may otherwise be reported in Block 3. As a result, VoIP revenues associated with these reseller customers were improperly assessed USF charges as if they were end-user revenues.

Second, an error in the Carrier’s billing system occurred during 2008, which caused child accounts of wholesale customers to lose their exemption status within the Carrier’s billing system. The exemption status was either dropped completely or the child account exemption status expiration date was incorrectly altered. Due to the volume of billing system corrections necessary, the Carrier was unable to identify and process the associated refunds in all instances.

Effect
The testing performed on the Carrier’s invoices is on a sample basis, and it indicates that the total effect extends to invoices throughout the entire year.

The specific overall monetary effect of USF overcharging on the Carrier’s 2009 FCC Form 499-A contribution base cannot be determined until the Carrier conducts a detailed
analysis of all reseller customer invoices and any refunds processed to correct improper USF assessments.

**Recommendation**

IAD recommends that the Carrier conduct a thorough review of customers classified as exempt resellers within Block 3 of the 2009 FCC Form 499-A to ensure that all VoIP revenue associated with exempt resellers is properly excluded from USF assessment and to ensure the error for child accounts has been completely addressed. Additionally, we recommend the Carrier implement internal controls related to identifying and exempting reseller accounts from USF charges to include the following: a more detailed review of newly opened accounts to determine whether the account is associated with an exempt parent account, a system for processing customer complaints regarding USF charges, and regularly scheduled reviews by account managers to determine whether any paperwork was mistakenly omitted that might have led to an exemption for the reseller customer in the billing system.

Consistent with the Commission’s *Clear World Order*, IAD further recommends that the Carrier identify the amount of overcharges it imposed on its customers and refund those amounts to its customers. 24

**Carrier’s Response**

While PAETEC acknowledges that it inadvertently charged certain wholesale customers a USF surcharge, PAETEC believes that the issue was corrected and customers were credited at the time it was discovered during the audit. PAETEC has in place several procedures that correct any concerns that the IAD had regarding exemption and credits. During the course of the audit period, PAETEC personnel reached out to the IAD audit team to discuss current customers’ complaints regarding PAETEC’s reseller exemption process. In each case, PAETEC was reassured that their process was correct by IAD.

As such, PAETEC considers this matter closed as having been completed prior to the issuance of the audit report.

**USAC IAD Response**

The Carrier states that it believes its reseller customers received a credit for USF charges at the time the issue was discovered during the audit. IAD recommends that the Carrier ensure that a refund was provided to all 27 reseller customers that were improperly assessed a USF pass-through charge on their invoices. IAD has not reviewed or evaluated the procedures implemented by the Carrier to address IAD’s reseller USF pass-through charge finding. Therefore, IAD is not in a position to comment on whether the Carrier’s recently implemented procedures will prevent future violations of the Rules.

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The Carrier further states in its response that IAD assured the Carrier that its reseller exemption process was correct with regard to the resolution of specific customer complaints. While IAD did provide general guidance regarding individual USF customer inquiries received by the Carrier during the course of the audit, IAD notes that it did so based on the information provided by the Carrier at the time, and the Carrier’s response does not contain sufficient detail to allow IAD to conclude whether the Carrier has properly responded to complaints by its customers as a general matter.

USAC Management’s Response
Pursuant to FCC Rule 54.712, “[f]ederal universal service contribution costs may be recovered through interstate telecommunications-related charges to end users. If a contributor chooses to recover its federal universal service contribution costs through a line item on a customer’s bill the amount of the federal universal service line-item charge may not exceed the interstate telecommunications portion of that customer’s bill times the relevant contribution factor.” 25

Therefore, consistent with Commission’s Clear World Order, if a Carrier overcharges USF to its customers, the Carrier must identify the amount of the overcharges and refund those amounts to its customers. 26 USAC does not endorse any particular method used to refund customers, and USAC is not permitted to accept from the carrier all or a portion of the amounts associated with customer overcharges. 27

25 47 C.F.R. § 54.712.
26 See generally, Clear World Order.
27 Id.
PAETEC Communications, Inc.
Filing Year 2009
Detailed Audit Finding #6
Block 5 Percentages

Criteria
The Instructions to the 2009 FCC Form 499-A (Instructions) state:

“Lines 503-510 – In these lines, filers should identify the percentages of their telecommunications revenues by LNPA region. Payphone service providers, private service providers, and shared-tenant service providers that have certified that they are exempt from contributing to the shared costs of LNP need not provide these breakdowns. Carriers and interconnected VoIP providers should calculate or estimate the percentage of revenues that they billed in each region based on the amount of service they actually provided in the parts of the United States listed for each region. The percentages in column (a) should add to 100% unless the filer did not provide any services for resale by other contributors to the federal universal service support mechanisms. The percentages in column (b) should add to 100% unless the filer did not provide any telecommunications services to end users or non-contributing carriers. Carriers do not need to complete column (a) if they have some end-user revenues in each of the regions in which they have carrier operations.”
2009 FCC Form 499-A Instructions, § III.D at 32, ¶ 1.

Condition
The Carrier reported its total revenue, rather than just its end-user telecommunications revenue, by Local Number Portability Administration (LNPA) region in column (b), “Block 4 End-User Telecom,” of Block 5 of its 2009 FCC Form 499-A. Total revenue includes reseller revenue and non-telecommunications revenue which should not be included in the LNPA calculation.

Cause
The Carrier was unaware of the proper FCC Form 499-A reporting requirements for Block 5 percentages.

Effect
This finding does not have an effect on the Carrier’s universal service contribution base. However, it does affect the LNPA. IAD was unable to calculate the correct LNPA percentages because regional location information provided to IAD included revenues associated with non-telecommunications.

Recommendation
Block 5, column (b) percentages should be recalculated using Block 4 (end-user) telecommunication revenues, and the Carrier should re-file its 2009 FCC Form 499-A to
properly report these percentages. In addition, the Carrier should re-file any filings where similar errors may have occurred to accurately report its revenue by LNPA region.

**Carrier’s Response**
PAETEC concurs that the percentages in Block 5 need to be recalculated to exclude non-telecommunication revenue.

**USAC Management’s Response**
USAC management concurs with USAC IAD’s finding.
PAETEC Communications, Inc.
Filing Year 2009
Detailed Audit Finding #7
D.C. Agent

Criteria
The Instructions to the 2009 FCC Form 499-A (Instructions) state:

"Lines 209-218 – The second part of Block 2 contains information on the filer’s agents for service of process, including the agent located in the District of Columbia (‘D.C. Agent’). All carriers and interconnected VoIP providers must enter the name, business address, telephone or voicemail number, facsimile number, and, if available, Internet e-mail address for their designated D.C. Agent." 2009 FCC Form 499-A Instructions, § III.B.2 at 17, ¶ 3.

Condition
IAD reviewed the Carrier’s 2009 FCC Form 499-A to ensure it included the information required by the Instructions. In Block 2-B of the 2009 FCC Form 499-A, the Carrier reported the company that serves as its D.C. agent, but the Carrier did not complete Line 209, omitting the first and last name of the D.C. agent. In addition, the D.C. agent’s telephone number was omitted from Line 210, and the facsimile number was omitted from Line 211.

Cause
IAD concluded that the cause was due to the Carrier’s lack of understanding regarding the proper reporting of D.C. agent information.

Effect
This finding does not have an effect on the Carrier’s 2009 FCC Form 499-A contribution base.

Recommendation
IAD recommends that the Carrier re-file its 2009 FCC Form 499-A to include the information required by the Instructions. In addition, any filings where similar omissions may have occurred should also be re-filed and the D.C. agent information reported in accordance with the Instructions.

Carrier’s Response
PAETEC agrees that the information was not on the form. It does not agree that it was due to a lack of understanding. PAETEC also disputes whether a phone number or email is required for a DC Agent under FCC rules. As the FCC does not recognize service by phone or by email, such information is purely for informational purposes and does not constitute a waiver to a right of service via U.S. Mail.
USAC Management’s Response

The FCC rules state that every common carrier and interconnected VoIP provider, as defined in FCC Rule 54.5, that is subject to the Communications Act of 1934, as amended, must designate a D.C. agent and such designation must include a telephone or voice mail number, facsimile number, and, if available, Internet email address. USAC management concurs with IAD’s finding that the Carrier did not submit complete information pertaining to the Carrier’s designated D.C. agent as required by FCC Rule 1.47(h) on its 2009 FCC Form 499-A filing. USAC management notes, however, that the Carrier’s 2011 FCC Form 499-A does contain all of the required D.C. agent information, except for the facsimile number.

USAC, in its role as the data collection agent for the FCC Form 499, is only responsible for collecting the Carrier’s D.C. agent information and providing that information to the Commission. Any concerns the Carrier may have regarding the purpose or use of the information, or the Commission’s service requirements, should be addressed directly to the Commission.

28 47 C.F.R. § 1.47(h) (further stating that “[c]hach Telecommunications Reporting Worksheet filed annually by a common carrier or interconnected VoIP provider must contain a name, business address, telephone or voicemail number, facsimile number, and, if available, Internet e-mail address for its designated agents, regardless of whether the information has been revised since the previous filing. Carriers and interconnected VoIP providers must notify the Commission within one week of any changes in their designation information by filing revised portions of the Telecommunications Reporting Worksheet with the Chief of the Enforcement Bureau’s Market Disputes Resolution Division.”).
PAETEC Communications, Inc
Filing Year 2009
Other Matter
Virtual Private Network (VPN)

Criteria
The Instructions to the 2009 FCC Form 499-A (Instructions) state:

"...the term ‘telecommunications’ means the transmission, between or among points specified by the user, of information of the user’s choosing, without change in the form or content of the information as sent and received.” 2009 FCC Form 499-A Instructions, § II.A at 4, ¶ 4.

"Line 418 should include all non-telecommunications service revenues on the reporting entity’s books, as well as some revenues that are derived from telecommunications-related functions, but that should not be included in the universal service or other fund contribution bases.” 2009 FCC Form 499-A Instructions, § III.C.4 at 29, ¶ 3.

Condition
IAD received documentation from the Carrier that demonstrated VPN revenue of [redacted] associated with the Carrier’s exempt resellers. The Carrier reported this revenue on Line 305 as 33%, or [redacted] interstate revenue. IAD also received documentation that demonstrated VPN revenue of [redacted] associated with the Carrier’s end-users. The Carrier reported this revenue on Line 406 as 33%, or [redacted], interstate revenue.

VPN provides the functions and features of a private network without the need for dedicated private lines between corporate sites. Each site connects to the provider’s network rather than directly to another corporate location. Through the use of an encrypt-transmit-decrypt process referred to as tunneling, VPN customers have a solution that is the same as dedicated point-to-point connections.

Due to the complexity of the product, USAC has requested guidance from the FCC as to the proper classification of VPN services. In the interim, IAD will treat this issue as an Other Matter as its outcome may or may not affect our conclusion concerning the Carrier’s compliance with the Rules.

Cause
The Carrier considers this product a telecommunications service.

Effect
IAD cannot presently determine if this issue will have an effect on the Carrier’s contribution base. Of the [redacted] of VPN revenue that IAD determined relates to [redacted] and [redacted].

29 The Block 3 and Block 4 Products & Jurisdiction Detailed Audit Finding contains additional details regarding the calculation of the Carrier’s VPN revenues.
PacTec Communications, Inc.
Filing Year 2009
Summary

Following is a summary of the Findings discussed above and the estimated effect on the Carrier’s USF contribution base.

<table>
<thead>
<tr>
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This concludes the results of IAD’s audit. Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes.

This report is confidential and its distribution is limited pursuant to the requirements of 47 C.F.R. § 54.711(b).
end-users on Line 406, 33%, or [REDACTED] is interstate revenue. IAD notes the potential amount from the VPN product that may need to be reclassified into the Carrier’s contribution base revenues totals [REDACTED].

**Recommendation**

IAD will issue a recommendation upon receiving FCC guidance and the completion of any necessary follow-up work.

**Carrier’s Response**

USAC’s conclusion is that PAETEC included VPN revenues as a telecommunication service, but offers no discussion on whether that is accurate or inaccurate. PAETEC understands that this issue is pending at the FCC. Should the FCC determine that PAETEC should have treated its VPN revenue as information service, in whole or in part, PAETEC reserves the right to apply this decision retroactively to the remainder of this audit decision. In other words, should PAETEC be due additional credits, PAETEC believes it should have the right to take them, retroactively, as credits to other results in this audit at any time in the future. If not, then PAETEC could be prejudiced by USAC’s inability to decide on whether PAETEC reported this revenue correctly. If USAC disagrees with PAETEC’s belief that it should have this right to offset against other findings in the audit, then the entire audit should be held in abeyance until such time as the FCC rules on this other matter.

**USAC Management’s Response**

USAC management concurs with IAD’s finding. Please note that all FCC Form 499-A filings are subject to the annual revision deadline established by the FCC. Therefore, USAC will not accept a downwardly revised FCC Form 499-A after the expiration of the one-year revision window unless directed to do so by the FCC.

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