



OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20554

March 24, 2011

Denise McCue
Chief Executive Officer
Affinity Network, Inc.
4380 Boulder Highway
Las Vegas, NV 89121

Dear Ms. McCue:

The Federal Communications Commission (FCC) Office of Inspector General (OIG) audited Affinity Network, Inc. to determine compliance with FCC rules regarding the reporting of revenue information subject to Universal Service Fund (USF) contributions on the FCC Form 499-A, Telecommunications Reporting Worksheet, for the calendar year ended 2007. Attached is the final report of the audit conducted by our office. It incorporates the written responses received from the Company and the Universal Service Administrative Company (USAC) and our comments to those responses.

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) and 4(a)(1). It is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit.

Please contact Randal Skalski, Director, USF Program Audits at 202-418-0479, or randal.skalski@fcc.gov or Gerald Grahe, Assistant Inspector General for USF Oversight at 202-418-0474, or gerald.grahe@fcc.gov if you have questions, or need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerald T. Grahe". The signature is stylized and cursive.

Gerald T. Grahe
Assistant Inspector General for
USF Oversight

Attachment - Final Audit Report
09-AUD-06-09

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL



Final Audit Report
Compliance with FCC's USF Contributor Rules
Affinity Network, Inc.

Report No. 09-AUD-06-09

March 24, 2011

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.

Background

Affinity Network, Inc. (Company), Filer ID No. 809136, was founded in 1989 as a retailer of long distance services. In 2006, the Company began to offer wholesale long distance services. Currently, the Company offers switchless services for its long distance customers. The services enable the Company to provide more efficient long distance services at the most advantageous price available. The Company recently began to offer interconnected voice over internet protocol (VoIP) services. The Company is also affiliated with NOS Communications, Inc. (Filer ID No. 809092) and NOSVA Limited Partnership (Filer ID No. 809090). These entities focus mainly on retail telecommunications services for small and medium sized businesses.

Scope and Methodology

We examined the Company's compliance with the applicable requirements of the federal Universal Service Fund (USF) contained in the rules of the Federal Communications Commission and codified in Title 47 Code of Federal Regulations (CFR) Part 54, §§ 54.706, 54.711, 54.712 and 54.713, related FCC Orders and the Telecommunications Reporting Worksheet Instructions relative to information reported on the FCC Form 499-A for the calendar year 2007.

We conducted this performance audit in accordance with generally accepted government auditing standards contained in Government Auditing Standards, July 2007 revision (GAO 07-731G), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis of our findings and conclusions based on our audit objectives. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

OIG representatives visited the Company's location in Las Vegas, Nevada during the period May 11 - 15, 2009, met with the Company's staff and consultant, and reviewed supporting data related to the 2008 FCC Form 499-A.

Conclusions

Our audit identified three findings in which the Company did not comply with the FCC Rules and Regulations and with the Telecommunications Reporting Worksheet Instructions regarding its 2008 FCC Form 499-A. The Company (1) overcharged USF recovery on customers' bills; (2) did not match the international traffic report to the FCC Form 499-A; and, (3) underestimated contribution base revenue projections on FCC Form 499-Q. Details are included in findings 1 through 3.

<p>This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.</p>
--

The final report incorporates written responses to the audit report from the Company and the Universal Service Administrative Company (USAC) and our comments to those responses. The Company and USAC agreed with our audit report findings and recommendations.

Finding 1: Company Overcharged USF Recovery on Customers' Bills

Criteria: 47 CFR § 54.712(a) states that 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.

Condition The Company's customers were overcharged for USF recovery because the Company utilized the wrong USF recovery surcharge percentages for three out of four quarters during calendar year 2007. The Company applied a USF recovery surcharge of 11.7 percent on its customer billings for the entire calendar year 2007. However, the maximum allowable percentages are the FCC's published USF contribution factors, which varied from 9.7 percent to 11.7 percent each quarter during 2007. See Table below.

Cause: The Company's officials stated that use of the 11.7 percent recovery rate for the entire year was an oversight.

**Table - Summary of Actual and Allowable
Calendar Year 2007 USF Recovery Percentages**

Quarter	Actual	Maximum Allowable
First	11.70%	9.70%
Second	11.70%	11.70%
Third	11.70%	11.30%
Fourth	11.70%	11.00%

Effect: We determined that the Company's customers were overcharged the Federal USF recovery surcharge by a total of \$621 for calendar year 2007.

Recommendations: We recommend that the Company (1) implement appropriate internal controls to accurately calculate the surcharges, and (2) take appropriate action with respect to the \$621 it overcharged its customers in 2007 because of the inaccurate recovery surcharge calculation.

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.

Company's Response: The Company has implemented a procedure to receive notice of the release of a new FCC USF rate. The rates are now implemented into the Company's billing system by the Billing Manager and are checked by the Company's Chief Financial Officer and an outside Tax Consultant to ensure proper rates are used for the pertinent calendar quarter. The Company has refunded the \$621 to its customers.

OIG's Comments: The actions taken by the Company should help to ensure that its customers are not overcharged USF recovery and improve the accuracy of the Company's contribution base on future FCC Forms 499-A.

USAC's Comments: USAC agreed with the finding. USAC will require that an officer of the Company certify in writing the total amount refunded to its customers and the total amount of overcharges by the Company.

OIG's Comments: We concur with USAC's proposed follow-up actions.

Finding 2: International Traffic Report Did Not Match FCC Form 499-A

Criteria: Telecommunication Reporting Worksheet instructions to the 2008 FCC Form 499-A, page 21, state that the total revenues identified as international on Line 419(e) should match the total U.S. billed revenues that will be reported each year pursuant to 47 CFR § 43.61.

Condition: The Company filed the annual International Traffic Report for 2007 as required by 47 CFR § 43.61 but the report did not match the revenues reported on line 419(e) of the 2008 Form 499-A. The report included international revenues of [REDACTED] while the 2008 FCC Form 499-A report included revenues of only [REDACTED].

Cause: The Company's officials revised its 2008 FCC Form 499-A twice but did not revise its Report of International Telecommunication Traffic accordingly.

Effect: The condition does not affect the USF contribution base revenues.

Recommendations: We recommend that the Company (1) revise its Report of International Telecommunication Traffic to be consistent with revenues reported on line 419 (e) of the 2008 Form 499-A, and (2) ensure that the two documents are consistent in future filings.

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.

Company's Response: The Company filed an amended Report of International Telecommunication Traffic with the FCC's International Bureau for 2007.

OIG's Comments: We confirmed that the Company submitted a revised Report of International Telecommunication Traffic for calendar year 2007 to equal revenues reported on line 419(e) on the 2008 Form 499-A.

USAC's Comments: USAC agreed with the finding.

Finding 3: Company Underestimated Contribution Base Revenue Projections

Criteria: Instructions to the FCC Form 499-Q dated February 2007 provide guidance on reporting quarterly projections of USF contribution base revenues. Page 20 of the instructions states that, "An officer of the reporting entity must examine the data provided in the Telecommunications Reporting Worksheet and certify that the information provided therein is accurate and that projections provided therein represent good faith estimates based on company procedures and policies."

Condition: The Company reported quarterly projected revenues on the FCC Form 499-Q for calendar year 2007 that were 85 percent lower than the actual contribution base revenues reported on its 2008 FCC Form 499-A. USAC invoiced the Company for its USF obligation based on underestimated revenues information. At the end of the calendar year, USAC reconciled the projected revenues to the actual contribution base revenues reported on the FCC Form 499-A and billed the Company the balance of its USF obligation. Accurate projections, however, are needed throughout the year in order for the FCC to establish accurate quarterly USF contribution factors.

Cause: The Company's officials stated that they inadvertently understated projections on the FCC Form 499-Q because the Company did not account for the revenues from its non-contributing customers in the USF contribution base.

Effect: Since the Company paid the balance due on the underestimated revenues there is no monetary effect to the finding.

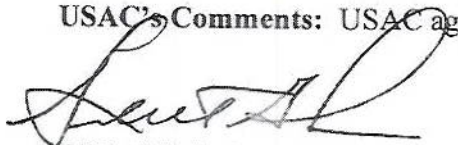
Recommendation: We recommend that the Company strengthen its policies and procedures in projecting the contribution base revenues on the quarterly FCC Form 499-Q.

Company's Response: The Company has implemented procedures to file accurate revenue estimates on the FCC Form 499-Q.

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.

OIG's Comments: The steps taken by the Company should help ensure that the projected revenues reported on the FCC Forms 499-Q are consistent with the revenues reported on the FCC Forms 499-A.

USAC's Comments: USAC agreed with the finding.



GERALD T. GRAHE
Assistant Inspector General
for USF Oversight

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.

*Affinity Network Inc.
250 Pilot Road, Suite #300
Las Vegas, NV 89119*

September 23, 2010
Via Electronic Mail

Federal Communications Commission
Office of the Inspector General
Washington, DC 20554

Dear Gerald T. Grahe,

RE: Affinity Network, Inc.
Draft Audit Report dated August 16, 2010, 09-AUD-06-09

The purpose of this letter is to provide responses to your audit report.

Finding #1 – The Company has implemented a procedure to obtain the FCC notices once the new FCC USF rate is released. Those rates are implemented into the billing system by the Billing Manager. The rates are checked by the CFO and the outside Tax Consultant to ensure the proper rates are used for that calendar quarter. The Company has refunded the \$621 to its customers.

Finding #2 – The Company amended its International Traffic report (form 43.61) with Linda Blake at the FCC's International Bureau for 2008 and filed an accurate form 43.61 with its 2009 international traffic.

Finding #3 – The Company has implemented procedures to file an accurate estimate for projected retail/end user revenues on the FCC 499Q returns rather than waiting to perform an analysis when filing the FCC 499A return.

Please do not hesitate to contact Mark Lammert CPA at Compliance Solutions, Inc., our tax preparer, mark@csilongwood.com, 407-260-1011 phone, 407-260-1033 fax, or Andrea Zingo, our Chief Financial Officer, if you have questions or concerns.

Sincerely,



Joseph T. Koppy, CEO

cc: Andrea Zingo, CFO
Mark Lammert, CPA c/o Compliance Solutions, Inc.

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.



December 28, 2010

William Hill
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

RE: FCC Office of Inspector General Audit –Audit Report No. 09-AUD-06-09

Dear Bill:

USAC has reviewed the FCC's Office of Inspector General draft final audit report 09-AUD-06-09 of Affinity Network, Inc. dated November 23, 2010. Attached is the USAC Management response to the audit.

If you have any questions regarding this response, please contact me at 202-772-5251.

Sincerely,

A handwritten signature in black ink, appearing to read "Michelle Garber", is written over a faint, larger version of the same signature.

Michelle Garber
Director of Financial Operations

Encl: OIG 09-AUD-06-09 Affinity Network, Inc.- USAC Response
cc: Mark Stephens

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.



**USAC Response to FCC Office of Inspector General Audit
Audit Report No. 09-AUD-06-09 – Affinity Network, Inc.
December 28, 2010**

USAC reviewed the FCC Office of Inspector General (OIG) audit of the 2008 FCC Form 499-A for Filer ID 809136, Affinity Network Inc. (the Company). Our response to the audit follows.

Finding 1: Company Overcharged USF Recovery on Customers' Bills.

USAC agrees with the OIG's finding with no further comments.

Finding 2: International Traffic Report Did Not Match FCC Form 499-A.

USAC agrees with the OIG's finding with no further comments.

Finding 3: Company Underestimated Contribution Base Revenue Projections.

USAC agrees with the OIG's finding with no further comments.

USF Contribution Obligation

The OIG concluded there is no monetary effect for this audit.

USAC Audit Follow-Up Actions

The audit of the Company's Form 499-A resulted in the FCC OIG concluding that the Company was not in compliance with FCC rules.

The FCC OIG concluded that the Company overcharged customers the surcharge to recover USF contributions. The Company has indicated that its customers have already been refunded. USAC requires that within 60 days of the issuance of the USAC letter, the Company have an officer certify in writing to USAC the total amount refunded to customers and the total amount of overcharges by the Company. USAC may also refer the Company to the FCC Enforcement Bureau for this issue for potential further action. Upon USAC Board of Directors deeming this audit final and ready for USAC follow-up, USAC will outreach via letter to the Company to ensure that any over billings of federal USF have been refunded to its customers.

This concludes the USAC management response.

This document may contain confidential and proprietary information of the auditee protected from disclosure under the Trade Secrets Act and other laws and regulations. This document must be returned to the FCC's Office of Inspector General for review and removal of protected information before disclosure of any portion of it by any unit, representative, employee, or agent of the United States Government.