

Avoiding Common Audit Findings

High Cost Program

November 10, 2021



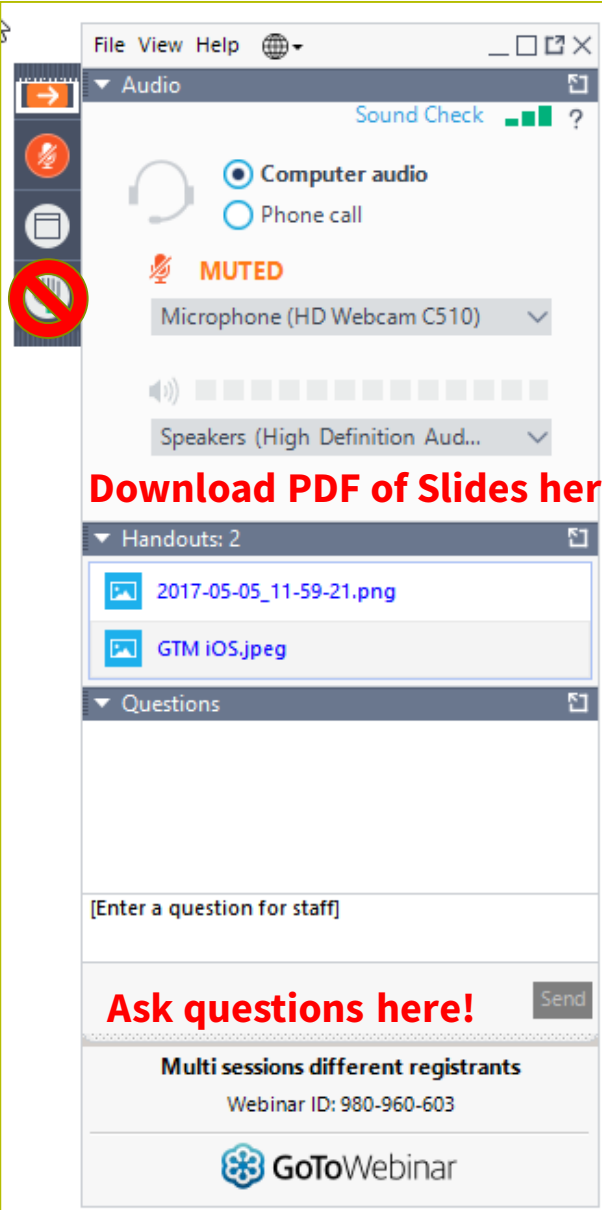
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Meet Our Team

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- Improper Inclusion of Ineligible Items
 - Intended Use
 - Improper Data Period
- Inadequate/Inaccurate Documentation
- Improper Affiliate Transactions
- Improper Allocation Methodology
 - Inaccurate/Misclassified Access Line/Loop Counts
 - Misclassified Assets, Expenses, and /or Liabilities
- Inaccurate Depreciation Calculation
- Key Takeaways and Resources
- Questions

Improper Inclusion of Ineligible Items

- Potential Errors
 - Inclusion of expenses not necessary for the provision, maintenance, or upgrading of facilities and services for which the support is intended.
 - Improper inclusion or allocation of non-regulated assets or expenses

Improper Inclusion of Ineligible Items

- Ineligible Items
 - Intended Use Rule, 47 CFR § 54.7
 - “*Intended Use Public Notice*” see FCC 15-133
- Best Practices
 - Review accounting costs for unallowable and non-regulated items
 - Maintain adequate documentation

Inadequate/Inaccurate Documentation

- Potential Errors
 - Insufficient Continuing Property Records (CPRs)
 - Insufficient supporting documentation for affiliate transactions, cost study balances and adjustments, expenses, and geocoded locations
 - Inaccurate/Misclassified Assets, Expenses, liabilities, Access line and/or loops counts
 - Reporting Errors (misapplication of rules)

Inadequate/Inaccurate Documentation

- Error Detection
 - Review Policies and Procedures (P&Ps)
- Best Practices
 - Implement / update P&Ps as appropriate
 - Confirm data available after software conversion, acquisition/merger, or other data-related event
 - 47 CFR §54.320(b) and §32.12

Improper Affiliate Transactions

- Potential Errors
 - Not observing a price ceiling when purchasing from an affiliate
 - Not observing a price floor when providing services to an affiliate
 - Insufficient documentation / record retention

Improper Affiliate Transactions

- Error Detection
 - Compare pricing and costs related to transactions with affiliates versus fees for non-related entities
- Best Practices
 - Policies, Procedures, Systems
 - Sufficient documentation to support proper compliance (47 CFR §32.27 and 36.2(c))

Improper Affiliate Transaction: Best Practice

| Transaction Type | Asset/Service Type | Annual Asset Value/ Annual Service Amount | Transferring Entity | Recipient | Appropriate Pricing |
|------------------------------|----------------------------|--|------------------------|------------------------------------|------------------------|
| asset transfer | general asset | less than \$500,000 | regulated carrier | subsidiary | net book cost |
| | | | subsidiary | regulated carrier | |
| | greater than \$500,000 (a) | regulated carrier | subsidiary | no less than higher of FMV or NBC | |
| | | subsidiary | regulated carrier | no higher than lower of FMV or NBC | |
| | tariffed asset (b) | all | regulated carrier | subsidiary | tariffed rate |
| | | | subsidiary | regulated carrier | |
| prevailing price asset (c) | all | regulated carrier | subsidiary | prevailing price | |
| | | subsidiary | regulated carrier | | |
| service | general service | less than \$500,000 | regulated carrier | subsidiary | fully distributed cost |
| | | | subsidiary | regulated carrier | |
| | greater than \$500,000 (a) | regulated carrier | subsidiary | no less than higher of FMV or FDC | |
| | | subsidiary | regulated carrier | no higher than lower of FMV or FDC | |
| | tariffed service (b) | all | regulated carrier | subsidiary | tariffed rate |
| | | | subsidiary | regulated carrier | |
| prevailing price service (c) | all | regulated carrier | subsidiary | prevailing price | |
| | | subsidiary | regulated carrier | | |

Notes:

a) If the total aggregate annual value of the asset(s) or service(s) reaches or exceeds \$500,000 for the first time, the carrier must perform a market valuation to determine fair market value.

b) Tariffed Assets are assets that are sold or transferred between a carrier and its affiliate pursuant to a tariff.

c) In order to qualify for prevailing price valuation, sales of a particular asset or service to the third parties must encompass greater than 25% of the total quantity of such product of service sold by an entity. Carriers shall apply the 25% threshold on asset-by-asset and service-by-service basis rather than on a product line or service basis.

Questions?

Improper Allocation Methodology

- Potential Errors
 - Failure to use cost allocator
 - Use of inaccurate factors
 - Outdated inputs
 - Failure to maintain supporting documentation
 - Failure to use documented factors or methodology

Improper Allocation Methodology

- Error Detection
 - Review accounting costs for de-regulated activity
 - 47 CFR §64.901
- Best Practices
 - Implement policies and procedures to approve underlying data used in development of allocation factors
 - Maintain adequate documentation to support allocation factors

Inaccurate Depreciation Calculation

- Common Errors
 - Using month end balances to calculate depreciation
 - Retired assets not removed and/or asset additions not included.
 - Formula errors in the calculation.
 - Using rate not applicable to that asset type.
 - Using rate used was not approved by the state commission.

Inaccurate Depreciation Calculation

- Error Detection
 - Review accounting costs for de-regulated activity
 - See 47 CFR §32.2000(g)
- Best Practices
 - Establish adequate controls
 - Perform a review and reconciliation of historical data
 - Enhance the preparation, review and approval processes
 - Implement and maintain policies and procedures

Inaccurate Depreciation Calculation: Best Practice

Depreciation Expense Calculation

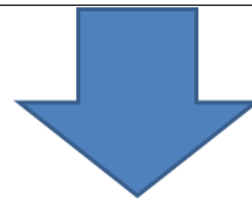
Monthly
Depreciation
Expense
Calculation

=

Monthly average
balance of the
associated plant
category

*

Annual depreciation rate
12 months



(Asset Balance on first day of the month + Asset Balance on the last day of the month)
2

Key Takeaways

- Maintain sufficient documentation
- Develop, review, and update policies and procedures, as necessary
- Stay abreast of updates from the FCC on High Cost program rules and regulations

References

- [Common Audit Findings](#)
- [Documentation for Auditors Checklist](#)
- [DA 98-855](#)
- [FCC 15-133](#)

References (Continued)

- [Code of Federal Regulations](https://www.ecfr.gov/) (*highlighted Rules*):
<https://www.ecfr.gov/>
 - Intended use of USF: 47 CFR §54.7 and 47 CFR 54.7(c)
 - CPRs: 47 CFR § 32.2000(e) and 32.2000(f)
 - Affiliate Transactions: 47 CFR § 32.27
 - Documentation Retention: 47 CFR § 54.320(b)
 - Record Keeping: 47 CFR §32.12
 - Cost Allocations: 47 CFR §64.901

Questions?

Thank You!





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