

Attachment 2

2020 AGREED UPON PROCEDURES PROGRAM

For the

**UNIVERSAL SERVICE ADMINISTRATIVE
COMPANY**

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY 2020 AGREED-UPON PROCEDURES

General

Section 54.717 of the Federal Communications Commission (“Commission” or “FCC”) rules require the Administrator to obtain and pay for an annual audit to examine its operations and books of account to determine, among other things, whether the Administrator is administering the universal support mechanisms to prevent fraud, waste, and abuse. The following program is an Agreed-Upon-Procedures (“AUP”) engagement of the Administrator’s operations and controls over its administration of the Universal Service Fund (“USF”)¹. The financial statements audit of the Universal Service Administrative Company (“USAC”) is not part of this document and is being conducted separate and apart from this engagement.

The word "determine" is used herein solely in the context of making a comparison of factual data. The word "determine" as used in this document should not be interpreted to imply that the external accountants used its own judgment to decide between alternatives or to make any subjective interpretation of facts or to provide positive or negative assurance or conclusions. For the purpose of reporting findings, differences greater than \$10.00 will be reported.

Notes for external accountants:

1. When selecting disbursement samples, please provide USAC with the amount, payment date, date the payment file sent to USAC, FRN (Funding Request Number)/SAC (Study Area Code), funding year (if applicable), and SPIN (Service Provider Identification Number) to which the payment was made.
2. When requesting Form 498s, please provide USAC with the SPIN.
3. If a procedure cannot be performed based on new information received, then the independent auditor should propose an alternative procedure to satisfy the requirement.
4. Pursuant to the FCC EPAY mandate all USF disbursements authorized with effect from August 31st, 2010 are required to be processed as electronic payments.
5. Before the final USAC AUP Report is released all revisions to this AUP Work Program subsequent to the start of the engagement, should be finalized and a final AUP Work Program provided to the Commission.
6. The Commission’s CFO staff will require access to the independent audit firm’s working papers for both the 2020 USAC Financial Audit and the 2020 USAC AUP Engagement subsequent to the completions of these activities.
7. Reported results where there are no findings noted should include language, i.e., no exception noted.

¹ Please note that the AUP program outlined in attachment 2 is not intended to be exhaustive and USAC/FCC reserves the right to modify procedures as appropriate.

1) ADMINISTRATION OF THE USF PROGRAM

Procedures

1.1 Obtain all final written policies and procedures (electronic version) over the administration of the Universal Service Fund (USF) (including procedures developed by Maximus). Obtain the most current version of the Memorandum of Understanding (MOU) between the Federal Communications Commission (FCC or the Commission) and USAC and any letters and emails issued by the FCC Office of Managing Director (OMD) and Wireline Competition Bureau (WCB) that USAC uses in its administration of the USF (this should include all support mechanisms and contributions). Obtain an analysis from USAC management, which maps the USF Part 54 Rules (USF Rules), MOU requirements and letter requirements to the written policies and procedures over the Administration of the USF. Also inquire and obtain from USAC management a listing of any rules, MOU or letter requirements related to the Administration of the USF where USAC has not developed a corresponding policy and procedure.

1.1a Obtain an explanation of why there are no final written policies and procedures for the rules or requirements identified in the listing above. Include the listing and explanations in the report.

1.1b Include in the report, any changes to the MOU and new requirements in FCC letters in effect during 2020.

1.1c Obtain a listing of those policies and procedures obtained above that relate to funding, funding recovery/assessment, or commitment decisions from USAC and its contractor (Maximus). Inquire with USAC whether any of the relevant policies and procedures obtained in procedure 1.1 are not in accordance with the Commission's rules.

1.1c.i Using the listing obtained in procedure 1.1, select a sample of ten policies and procedures relating to funding, funding recovery/assessment, or commitment decisions and inquire with USAC management whether they are in accordance with the Commission's rules and include in the report.

1.1c.ii Obtain from USAC management the reasons for any departures and include in the report.

1.1d Inquire of USAC whether any policies and procedures obtained above and related to USF collection and disbursement functions are not in accordance with Commission's rules. Inquire specifically with USAC that U.S. Department of Treasury (Treasury) policies and procedures related to disbursements and collections are in accordance with the USAC directions given to USAC by the FCC and in accordance with the agreement with USAC.

- 1.2 Obtain from USAC management the A-123 Risk Assessment of High Risk areas. For those areas identified as Medium High or above perform the following:
 - 1.2a Inquire of USAC management whether controls exist to mitigate the identified risk areas.
 - 1.2b Inquire of USAC management regarding any actions taken by USAC in 2020 to mitigate the identified risk areas.
 - 1.2c From procedure 1.2a & 1.2b above, identify all identified risk areas without associated mitigating controls or actions.
- 1.3 Obtain from USAC a listing of all contracts with disbursement activity greater than \$250,000 in 2020 that contain performance measurements used to evaluate contractors' and/or subcontractors' performance and a listing of the performance measures in each contract. For the contracts listed, obtain from USAC the performance measures and results that were used by USAC during 2020 to evaluate the contractors' and/or subcontractors' performance (such performance measures may or may not be included in the contracts above). Compare the performance measures and results obtained from USAC to the listing of performance measures in each contract, identify any performance measures in the contract not tracked, and inquire of USAC the reason why the measurements are not tracked. Inquire of USAC management regarding instances where the contractor and/or subcontractor has not met the performance measurements included in a contracts identified above.
- 1.4 Obtain from USAC a list of the performance measures and results (not included in the above procedure 1.3) used to track performance during 2020 across all support mechanisms, including contributions. Identify and include in the report the performance measures for each of the support mechanism components, including contributions. Include the description and the results of the measurements. Based on the list and actual results from USAC, identify instances where USAC has not met the targeted performance measures.
- 1.5 Discuss with USAC management the procedures in place to follow the requirement that current Commission rules are accurately stated on the USAC website.
 - 1.5a Inquire from USAC management how USAC confirms that its website includes access to policies and procedures, including those presented in training and outreach materials, which are in accordance with the Commission's rules, orders and directives
 - 1.5b Inquire from USAC management how USAC confirms that its website includes access to the online Code of Federal Regulations and, if an order revising Commission rules has been released, but not codified, how the revision order is accessible from the website.

1.5c Discuss with USAC management how it is confirmed that the information presented as USAC policies and procedures, including those presented in training and outreach materials, agree to the Commission's rules.

1.5d Inquire of USAC management to identify those policies and procedures, including those presented in training and outreach materials, that are included on the USAC website and do not have a corresponding rule.

1.6 Inquire of USAC management whether any training and outreach materials (e.g., training material, letters, updates, workshops, or other materials) used by USAC during calendar year 2020 to inform carriers, beneficiaries, and service providers of changes and modifications to the USF program are not included on the USAC website. For the training and outreach materials not included on the USAC website, inquire of USAC management whether any information in these materials is not in accordance with the Commission's rules. Obtain from USAC management the reasons for any departures identified and include in the report.

1.7 For the policies and procedures obtained in procedure 1.1 above, inquire of USAC management as to its process for seeking guidance from the Commission to interpret and implement the Commission's rule changes and modifications. Once the interpretive guidance is obtained by USAC from the Commission, inquire of USAC management and include in the report how USAC implements the guidance (e.g., posted on its website, shared through outreach, used in the training process, or through other means).

1.7a Obtain a list from USAC of all such requests for guidance from the Commission. The list should include those requests that were sent by USAC to the Commission during calendar year 2020 and those requests that were made prior to 2020 that are still pending. Include the list in the report. Inquire of USAC and identify the instances where the Commission provided or did not provide the requested guidance.

1.7b Obtain a list of the Commission's rules and interpretations that went into effect during calendar year 2020.

Inquire of USAC whether all necessary steps to implement Commission rules were taken by the effective date as stated in Commission rules. Inquire with USAC management and identify any steps that must be completed before these rules may be implemented.

1.7c Obtain USAC's estimated timetable to complete implementation of any USAC policies and procedures necessary to address Commission rules adopted during 2020.

1.7d Inquire of USAC whether Commission's rules and interpretations that went into effect during calendar year 2020 have been reflected in the respective procedures of USAC's AUP engagement for 2020.

1.7e Access the Commission orders and directives from calendar year 2020 and inquire with USAC whether the directives listed in each item below have been fully implemented by USAC; include any exceptions in the report.

1.7e.i Obtain from USAC management the reasons for any departures and include in the report.

1.8 The FCC-USAC MOU, Section IV. G. 5., effective December 19, 2018, requires the USF Administrator to implement an internal control structure consistent with the standards and guidance contained in OMB Circular A-123 (A-123), including the methodology for assessing, documenting, and reporting on internal controls specified in Appendix A of A-123, including establishing a risk management counsel and reporting minutes.

1.8a Inquire of USAC management whether USAC has developed and implemented a formalized process of documenting, assessing, and reporting on internal controls consistent with the standards and the guidance in A-123, and in Appendix A. This formalized process is management's action plan, (internal control framework), for documenting the necessary activities for implementing A-123. Obtain a copy of USAC's formalized process.

1.8a.i Obtain A-123, including Appendix A, which includes the goals and requirements of the document.

1.8a.ii Inquire of USAC management whether there were any significant departures from A-123, including Appendix A, and include the significant departures in the report.

1.8a.iii Obtain from USAC management the reasons for the significant departures from the A-123, including Appendix A, and include them in the report.

1.8b Inquire of USAC management whether USAC has created a Senior Management Council (SMC) consistent with A-123, Section III.A, Section IV.D, Appendix A Section III.A, Appendix A Section IV.A, and Appendix A Section IV.B, in support of management's responsibility for internal controls. Obtain the SMC minutes.

1.8b.i Inquire of USAC management and include in the report, the organizational structure of the SMC, the functions and activities performed, and their accomplishments

1.8b.ii Obtain from USAC management the SMC charter, the planning and methodology documentation, and the internal control framework. Inquire of USAC management whether there were any significant departures and include the significant departures in the report.

1.8b.iii Obtain from USAC management the reasons for the significant departures from the guidance in step 1.8b and include in the report.

1.8c Obtain from USAC the completed, current and planned internal control risk assessments. Compare the internal control framework obtained in step 1.8a and the risk

assessments planned and performed to the requirements under A-123, Section I and Section II.B, including Appendix A, Section III.B.2. Inquire of USAC management whether there were any significant departures and include all significant departures and the reasons why in the report.

1.8d Obtain from USAC the Internal Controls Assessment Report, a listing of internal control findings, and the corresponding corrective action plans for each finding identified during the current year (12 months ended December 31, 2020).

1.8d.i For each finding, inquire of USAC management whether a corrective action plan and planned completion date has been determined. Include the response in the report.

1.8d.ii For each finding where corrective action plans have been implemented during the current year, obtain evidence that supports whether all key internal control deficiencies were retested to ensure they are working properly. Include in the report.

1.8e Obtain from USAC a listing of internal control deficiencies and the corresponding corrective action plans for prior year deficiencies not remediated as of January 1, 2020.

1.8e.i For prior year findings where corrective action plans have been implemented during 2020, obtain evidence that supports whether all key internal control deficiencies were retested to ensure they are working properly. Include in the report.

1.8e.ii Inquire whether corrective action plans have been implemented by their planned completion dates. Include in the report.

1.8e.iii Inquire of USAC management and include in the report the reasons why any corrective action plans identified in 1.8e.ii were not implemented by their planned completion date or retesting was not performed.

2. AUDIT RESOLUTION/FOLLOW UP

Procedures

2.1 Obtain the prior year's USAC Agreed Upon Procedures (AUP) report, identify all reported results with exceptions/findings and inquire whether USAC management has taken corrective action on all exceptions/findings. List any exceptions/findings where corrective action as communicated by USAC management has not been completed. Include the following in table format, (1) prior year's AUP procedure number, (2) the exception from the prior year, (3) whether this is a repeat finding, (4) USAC management response, (5) whether a corrective action plan has been developed, (6) the root cause (7) corrective action plan, (8) the responsible division within USAC (including personnel responsible for the management of the execution of the correction action plan), and (9) an estimated time of completion.

2.2 Obtain from USAC the October 2020 Monetary Audit Tracking Report which is submitted to the FCC and used to report the status of all final audit reports (USAC, Office of Inspector General (OIG), and external auditors findings), including a list of outstanding fund recovery/assessment activities and appeals of recovery/assessment determinations. For each item listed obtain each of the following, as applicable to the programs: audited entity (beneficiary/ contributor), date audit report approved by USAC Board and/or deemed final, amount of recovery/assessment sought by USAC, recovery due date, auditor recommended amount, funds recovered, funds recovered through offset or some other method, funds not recovered, date of notification letter, the date of first demand letter, date of second demand letter, date appeal was filed with USAC, date appeal was resolved by USAC, date appeal was filed with FCC, date appeal was resolved by FCC, date guidance requested from the FCC by USAC, date guidance received from the FCC by USAC, current status of the item, as applicable. Based on procedures performed above, ascertain if USAC tracks the activities listed above. Inquire how USAC reports this information internally (i.e., to management and to the Board) and to the Commission.

2.2a.i Using the data file obtained in procedure 2.2, observe whether all listed recovery/assessment activities include a date for the recovery notification letter for audits finalized in 2020. For contributor audits, there is no initial notification letter, so the "1st demand letter date" should be reviewed instead. (Note: If no recovery notification date is included, inquire with USAC management as to why a recovery notification letter was not issued. If the recovery is listed as a policy hold, USAC is unable to seek recovery for findings with open policy issues to the FCC).

2.2a.ii For beneficiary audits, randomly select recovery notification letters issued during 2020 and agree the date and amount of recovery sought and observe the beneficiary, FRN (for Schools and Libraries Division (SLD)), service provider, and Service Provider ID Number (SPIN).

2.2a.iii For contributor audits, randomly select first demand letters issued in 2020 and agree on the date. Sample should include 15 contributors (if less sample all), 10 SLD, 10 high cost support mechanism (HC), 5 low income support mechanism (LI), and 5 rural health care support mechanism (RHC).

2.2b From the sample in procedure 2.2a, for all the SLD and RHC recoveries (recoveries means the amount of funds USAC has attempted to recover and not necessarily the funds USAC has recovered) that include a notification letter date without an appeal date, observe whether the first demand letter includes a date that is within 60 days of the notification letter date. Also, from the data file obtained in 2.2, randomly select ten first demand letters (SLD, RHC and Contributors) mailed by USAC and identify the date, amount of recovery sought, beneficiary, FRN, service provider, and SPIN. Compare the amount and letter date from the letter against the information contained in the Monetary Audit Tracking Files and include any discrepancies and management comments in the report.

2.2c From the sample in procedure 2.2b, for all the SLD, RHC and Contributor recoveries that include a first demand letter date without an appeal date, observe whether the second demand letter date is within 40 days of the first demand letter date. If USAC has not sent a second demand letter, obtain an explanation as to why not.

2.2c.i Randomly select ten second demand letters (SLD, RHC and Contributors) mailed by USAC in 2020 and identify the date, amount of recovery sought, beneficiary, FRN, service provider, and SPIN. Compare the amount and date from the letter against the information contained in the Monetary Audit Tracking Files.

2.2d Randomly select 45 appeal dates, (if less sample all), from procedure 2.2 above, filed with USAC in the calendar year 2020, and obtain the related appeal correspondence as applicable (e.g., Administrator's Decision Letter (ADL), Revised Funding Commitment Decision Letter (RFCDL), Notification of Commitment Adjustment Letter (CAL) and observe whether the appeal correspondence was postmarked within the 60 day appeal window (60 days from the date of the USAC Notification Letter Date to the postmark date of appeal). If the appeal is dated more than 60 days from the CAL observe whether USAC dismissed the appeal as untimely filed.

2.2d.i If a decision was rendered for any of the selected appeals by USAC, obtain the ADL and RFCDL that was sent, if applicable.

2.2d.ii Compare the name of the applicant and appeal date and agree to the data obtained in the correspondence file obtained in procedure 2.2a above.

2.2e Inspect whether all entities from procedure 2.2 above that are identified as delinquent as of 10/31/20 are included in USAC's database system. That is, all those programmatic entities for which USAC management determined recoveries were necessary and debt is still

not satisfied within 30 days of the first demand letter, observe whether USAC has placed the entity on its Red Light List.

For contributor entities from which USAC management has determined recoveries were necessary, and the contributor did not pay the invoiced amounts by the due dates reflected on the USAC invoices, observe whether USAC has placed the entity on its Red Light List. Additionally, if a contributor entity has still not satisfied its debt within 120 days of being placed on USAC's Red Light List, inquire of USAC whether USAC management has submitted those recoveries to the U.S. Treasury for collection. Note: If the amount has been appealed or if the party is making arrangements to pay the debt, the party should NOT be on the Red Light List. (This procedure does not apply to HC/LI because recoveries are netted against support payments. Therefore, they do not place entities on the Red Light List).

2.2e.i From the listings obtained in step 2.2, identify all monetary findings where the "Status" is identified as "Appeal Review FCC" or "Appeal Review USAC" and the date of the appeal is in the period under review. Select five recoveries from the filtered listing and observe evidence to support exclusion of the recoveries from the USAC and FCC Red Light listings.

2.2f From the listings obtained in step 2.2, randomly select the lesser of 45 recoveries (35 SLD and 10 RHC) or the total recoveries received in 2020. Trace recovery to the cash receipt log and receipts supporting documentation (lockbox documentation, ACH, checks, wire transfers, appropriate appeal documentation (e.g., ADL, RFCDL, etc.)) as appropriate.

2.2g Obtain a list of all funds recovered through adjustment (i.e., audits, PQA, IDVs, COMAD and /or RIDF) from USAC for all mechanisms as of 10/31/2020. Inquire of USAC program management and identify from this discussion whether any funds recovered through adjusted amounts are outstanding (i.e., the amounts have not been adjusted by invoice or payment to carrier or service providers). For funds recovered through adjustment (COMAD Recovery of Improperly Disbursed Funds [RIDF]), select 1 month and trace the SL and RHC COMAD Snapshot "Cash Credited" total amounts to the accounting records (GL) and to bank statement deposit details as appropriate. (This procedure does not apply to HC/LI because recoveries are netted against current month's support payments prior to disbursement).

2.2h Inquire with USAC program management whether USAC has written policies and procedures to identify, track, and record all amounts associated with fund recovery activities.

2.2i From the listing in procedure 2.2 where a notification letter was issued in 2020 and the amount was not recovered as of 10/31/2020, randomly select 20 receivables (if less sample all), and trace them to the general ledger accounts. (This procedure does not apply to HC/LI because recoveries are netted against current month's support payments and are not recorded in the general ledger as receivables).

2.2j From the population of monetary audits with recoveries that were approved by USAC's Board of Directors in 2020, identify those audits where the auditor recommended recovery amount and actual recovery (HC, LI, RHC, SLD) or additional contribution (CR) amount sought by USAC differ. Observe that there is a variance explanation in Consolidated Post Audit Tracking System (CPATS) for all recommended amounts versus actual recovery amounts that differ. For any variances that do not have an explanation, obtain an explanation from USAC for the omission of variance explanation from CPATS. Select a random sample of 20 monetary audits, (if less sample all), from the population where there is a difference and include the variance explanations in the report. (Reference: the January 30, 2008 letter from Anthony Dale, FCC Managing Director to Scott Barash, USAC Acting CEO; and the October 13, 2010 letter from Dana R. Shaffer, Deputy Managing Director to Scott Barash, USAC Acting CEO).

2.2k Inquire and include in the report how USAC management has addressed the root cause of the exceptions and findings attributable to all USAC errors from the Beneficiary and Contributor Audit Program ("BCAP") and the Payment Quality Assurance ("PQA") program. For each BCAP and PQA finding, inquire as to whether any changes were made during 2020 to USAC programmatic policies and procedures in response to the findings and exceptions. Inquire and include in the report whether USAC has written policies and procedures to ensure that all findings identified through an audit or PQA for each program are addressed annually.

2.3 Obtain from USAC the October Non-Monetary Audit Tracking Report submitted to the FCC used to report the status of all audit findings on final audit reports (USAC, OIG), external auditors, and PQA findings). For each item listed above, obtain each of the following, as applicable to the programs: audited entity (beneficiary/ contributor), date audit report approved by USAC Board, audit findings, auditor recommendation, USAC management response, corrective action taken, planned completion date, including, if applicable, notification letter, date appeal was filed with USAC, date appeal was resolved by USAC, date appeal was filed with the FCC, date appeal was resolved by the FCC, date guidance requested from the FCC by USAC, date guidance received from the FCC by USAC, current status of the item. Based on procedures performed above, ascertain if USAC tracks the activities listed above. Inquire with USAC how USAC reports this information internally (i.e., to management and to the Board) and to the Commission.

2.3a Inquire of USAC and include in the report whether these were repeated exceptions/findings. Inquire and include in the report how USAC Division management has addressed the root cause of the repeated exceptions/findings.

2.4 Obtain a copy of the BCAP-to-CPATS Transfer procedures used by USAC Internal Audit Division (AAD) to ensure the accuracy and integrity of audit related data of all audit records

entered into the CPATS associated with all audits from the Performance Assessment Report (PAR).

2.4a Obtain a copy of USAC AAD's latest report documenting the quality assurance control procedures performed over the BCAP/PQA database to ensure the accuracy of the records loaded in CPATS. Include in the report.

2.4b Note in the report any control issues and exceptions identified by USAC AAD and the corrective action taken.

2.4c Randomly select a sample of 45 Audit Findings (30 monetary and 15 non-monetary) maintained in CPATS for the past five funding years and compare to the Audit Findings, Audit Recommendations, Monetary Effect and Recoveries reflected in the USAC BCAP, PQA or similar audit management sites. Compare the Audit Findings, Audit Recommendations, and Monetary Effect and Recoveries (if applicable) reflected on the listing to the USAC Board approved audit reports.

2.4d Include in the report any discrepancies found and management's explanation.

2.5 Obtain, from the Commission, a list of entities who participate in a Universal Service Program that had outstanding debt as of 3/31/20, 6/30/20, and 9/30/20, including the entities' tax identification number and the date the entity was placed on the Red Light List. Obtain a list of entities USAC has placed on the List for the same dates including the tax identification number and date placed on its Red Light List.

2.5a Select a random sample of ten entities on USAC's red light list and inspect whether USAC has committed/obligated to any of those entities while on the red light list.

2.5b Select a random sample of ten entities on USAC's Red Light List and inspect whether USAC has disbursed funds to any of those entities while on the Red Light List.

2.5c Compare the FCC red light status as indicated on USAC's Red Light List against the FCC red light status as indicated on the FCC's Red Light List. Observe any differences where the USAC Red Light List does not agree with the FCC's Red Light List.

2.5d If any entities were identified in procedure 2.5c above that should be included on USAC's list, inquire with USAC management whether USAC has committed/obligated funds to any of those entities while on the red light list.

2.5e If any entities were identified in procedure 2.5c above that should be included on USAC's list, inquire with USAC management whether USAC has disbursed funds to any of those entities while on the red light list.

2.6 From the USAC Monetary and Non-Monetary tracking reports obtained in procedures 2.2 and 2.3, in addition to any Audit and Assurance Division operational audits, select a

random sample of 25 audits (if less sample all) approved by the Board of Directors during calendar year 2020. Inquire as to the audit report date for each selection and obtain explanation for any audit reports that were not approved by the Board of Directors within 150 days.

2.7 Inquire of USAC management regarding whether USAC or USF programs have been issued reports from the Government Accountability Office (GAO) during the past year and obtain the following information:

2.7a Obtain GAO Reports issued to USAC or the USF Programs.

2.7b Directive letter from the Federal Communications Commission that instructs USAC or the USF Programs, as applicable, to address the GAO Report recommendations.

2.7c Evidence of management's current status to address the GAO recommendations.

2.7d Based on inquires performed and information obtained, report management's current status to address GAO recommendations.

2.8 Obtain from USAC the Non Audit Recoveries listings for HC, LI, SLD and RHC which include recoveries stemming from Payment Quality Assurance (PQA) and In Depth Validation (IDV) findings as well as Voluntarily Returned Funds. For each item listed obtain each of the following, as applicable to the programs: entity/applicant name, amount of recovery/improper payment, date of notification letter (HC and LI)/Commitment Adjustment Letter (CAL) (RHC and SLD), Date PQA closure letter sent (Applicable to HC and LI only), amount recovered, amount outstanding, USAC Appeal Date, and FCC Appeal Date.

2.8a Using the data file obtained in procedure 2.8, compare each listed recovery/improper payment item to a corresponding recovery notification letter/CAL date included in the data file. If no recovery notification/CAL date is included and the recovery is not in an appeal status, inquire with USAC management as to why a recovery notification letter/CAL was not issued.

2.8b Randomly select 40 (if less sample all) recovery notification letters/CALs issued during 2020 and agree the date and amount of recovery sought listed in the file to the actual letter (Sample includes 20 schools and libraries support mechanism ("S&L"), 5 high cost support mechanism ("HC"), 10 low income support mechanism ("LI"), and 5 rural health care support mechanism ("RHC").

2.8c Randomly select 15 appeal dates, (if less sample all), from procedure 2.8 above, filed with USAC in the calendar year 2019, and obtain the related appeal correspondence as applicable (e.g., Administrator's Decision Letter ("ADL"), Revised Funding Commitment Decision Letter ("RFCDL"), Notification of Commitment Adjustment Letter ("CAL") and observe whether the appeal correspondence was postmarked within the 60 day appeal

window (60 days from the date of the USAC CAL to the postmark date of appeal). If the appeal is dated more than 60 days from the CAL observe whether USAC dismissed the appeal as untimely filed.

2.8c.i If a decision was rendered for any of the selected appeals by USAC, inquire with USAC whether an ADL and RFCDL was sent, if applicable, obtain a copy of the ADL and RFCDL.

2.8c.ii Compare the name of the applicant and appeal date and agree to the data obtained in the correspondence file obtained in procedure 2.8 above.

2.8d From the listings obtained in step 2.8, identify all monetary findings where the “Status” is identified as “Appeal Review FCC” or “Appeal Review USAC” and the date of the appeal is in the period under review (Calendar Year 2020). Select five recoveries from the filtered listing and observe evidence to support exclusion of the recoveries from the USAC and FCC red light listings.

2.8e For all funds recovered through PQA, in-depth validations (IDVs) and Voluntarily Returned Funds, randomly select the lesser of 20 recoveries (10 SL, and 10 RHC) or the total recoveries for recoveries received in 2020. Trace the recovery to the accounting records (G/L) and to receipts (lockbox documentation, ACH, checks, wire transfers, appropriate appeal documentation (e.g., appeal decision letter, revised FDCL, etc.) as appropriate. (This procedure does not apply to HC/LI because recoveries are netted against current month’s support payments prior to disbursements).

2.8f From the listing in procedure 2.8, where a notification letter was issued in 2020 and the amount was not recovered as of 10/31/2020, randomly select 10 receivables and trace them to the general ledger accounts. (This procedure does not apply to HC/LI because recoveries are netted against current month’s support payments and are not recorded in the general ledger as receivables).

3. ADMINISTRATION OF DISBURSEMENT PROCESS

Procedures

3.1 Service providers and applicants are required to file Form 498 on-line (which contains the banking information and the taxpayer identification number, and FCC Registration Number) in order to receive requested payments. Using the samples selected in High Cost Section procedure 8.3 and 9.1a (including the competitors selected), Low Income Section procedure 19.1, and Rural Health Care Section procedures 20A.2 and 20B.2 randomly select 30 carriers or service providers across all support mechanisms. For Schools and Libraries, randomly select 15 service providers from the SL payment file.

3.1a Agree the 498 information submitted on-line by service providers (via e-file) to the corresponding service provider information in Great Plains.

3.2 Obtain a list of all accounts receivable balances at year-end. Select a sample of the highest ten credit accounts receivable balances and observe whether those balances outstanding at year-end were refunded subsequently by tracing the credit balance per the listing to documentation of payment issuance, red light held payment, or offset by monthly charges. For the accounts receivable balances chosen above and not cleared by February 15, 2021, obtain an explanation for the accounts with a balance.

3.2a Using the sample of ten in procedure 3.2 above, inquire of USAC management whether the sampled items (disbursements to service providers) have any non-contributor outstanding debt or accounts receivable prior to any disbursements for red light purposes.

3.3 Using the sample of 45 carriers and service providers selected in procedure 3.1 above:

3.3a Perform the following to ascertain payment type:

3.3a.i For those carriers selected for Schools & Libraries, observe the Form 498 information submitted in e-file and/or Appian and observe whether the carrier elected netting or non-netting. Note: Netted Carriers have their SPI disbursement payments netted against their contribution. Non-netted carriers receive direct payment by USAC, unless they are on Red Light. Confirm that only SPI disbursements are being netted or SLD service providers that have elected voluntary netting and do not have a USF contributor Red Light; BEAR disbursements on USF Red Light are not netted but will be on hold until the service provider fulfills its USF contributor obligation.

3.3a.ii For those carriers selected for Rural Health Care, inquire with USAC whether the carrier is servicing health care providers as part of the Telecom, Pilot, or Healthcare Connect Fund (HCF) programs. For those carriers selected, obtain the carrier's Form 498 information, observe whether the carrier elected netting or non-netting, and compare to the payment method used in 2020.

3.3b Obtain documentation of disbursement.

3.3b.i For those carriers that receive direct payment, obtain a remittance statement and Automated Clearing House (ACH) of the carrier's disbursement relating to the invoice (SLD Section 21 or RHC Section 20) or authorized disbursement report (HC Section 9 or LI Section 19). Identify the name, date, and amount listed on the remittance statement and ACH and agree to the SLD/RHC invoice or HC/LI calculation that was subjected to procedures or authorized disbursement amount.

3.3b.ii For those carriers that are receiving netting (refer to procedure 3.3a.ii above), obtain from billing a copy of the carrier's contribution invoice being netted against the carrier's contribution. Identify the name, date, and amount listed on the invoice and agree the amount netted to the invoice that was subjected to procedures

3.4 Randomly select a sample of 45 USAC administrative non-payroll expense disbursements from the payment file throughout the year and perform the following:

3.4a Obtain the list from USAC management of USAC employees authorized to sign administrative expense disbursements. Compare each administrative expense disbursement to the list of USAC employees authorized to sign administrative expenses and observe whether the administrative expense was signed and approved by an authorized USAC employee.

3.4b Compare the disbursement to the invoice and/or contract and observe whether the amount disbursed agrees to the invoice and/or contract amount.

3.4c Include in the report any differences identified in steps 3.4a and 3.4b above and obtain USAC's explanation.

3.5 Randomly select seven paid invoices from the payment file (includes administrative – 3, RHC - 2 and SL - 2) and enter these invoices into the applicable payment system and observe whether the system denies processing or flags the invoice as a potential duplicate.

3.6 Obtain a data file from USAC management that contains a listing of carrier adjustments for the High Cost & Low Income Support Mechanisms applied during calendar year 2020 (the listing should include carrier name, SPIN, date of and amount of adjustment). The Schools & Libraries and Rural Health Care Support Mechanisms payment amounts are not adjusted after authorized by the support mechanism. Randomly select five each and perform the following:

3.6a Obtain a list of employees who are authorized to sign from USAC management. Inspect whether the adjustment amount was signed and approved by an authorized USAC employee.

3.6b Inquire with USAC management whether USAC made an accounting entry into its GL for the adjusted amount and, if applicable, obtain a copy of the entry and identify the GL account used to record adjustments.

3.6c Include in the report the balance of adjustments not yet applied as of 12/31/20 (includes all calendar years through 2020), including the date of the selected adjustment and the mechanism amount.

4. CORPORATE GOVERNANCE

Procedures

- 4.1 Obtain from USAC management a listing of vendors with which USAC had more than \$2 million of expenditures in 2020. Inquire with USAC whether any of the vendors are a subsidiary of any telecommunications carrier, service provider, or beneficiary. A subsidiary is an entity that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with another entity, has a financial investment or other interests. Note: It is acknowledged that USAC's Board of Directors is comprised of carriers, industry and non-industry groups.
- 4.2 Obtain the list of the Board of Directors of USAC and NECA for the year January 1, 2020 through December 31, 2020 and compare both lists in order to identify any NECA board members who resided on USAC's board (Section 54.703(a)). Include in the report the board members' names, company employed with, and whom they represent.
- 4.3 Obtain a list of USAC board electees for January 1, 2020 through December 31, 2020, and inquire of USAC that new board members, as selected pursuant to 47 CFR 54 § 703(c)(1), (2), and (3), were seated on the USAC board.
- 4.4 Inquire of USAC management whether all Board of Directors meetings are conducted in accordance with §54.703(e) of Commission rules. Obtain all Board of Director meeting minutes during calendar year 2020 and observe whether there have been any Board of Directors meetings or agenda items within a board meeting closed to the public. If a meeting included a closed session, include the reason obtained from the meeting minutes.
- 4.5 Inquire of USAC management whether USAC's financial accounting general ledger (GL) is separate from NECA's financial accounting general ledger (GL).
- 4.6 Obtain the final 2020 annual payroll file that was used to generate the annual w-2 statements that includes basic rate of pay, bonus, any non-regular payments, reimbursement for non-business related travel or other compensation and compare each employee's YTD Gross Wage amount from the report to maximum allowable amount under §54.715(b) of Commission's rules.
- 4.6a Inquire of management if such benefits are reasonably comparable to benefits that are provided to employees of the federal government and include in the report the analysis supporting USAC's determination.
- 4.6b Inquire with the Chief Human Resources Officer and Controller as to whether any officers and employees of the Administrator received any additional compensation that did not get reported on the 2020 w-2 such as regular pay, including any non-regular payments, bonuses, non-business related travel expenses, or other compensation, in an amount

exceeding the rate of basic pay in effect for Level I of the Executive Schedule under 5 U.S.C. 5312.

4.6c Obtain from the Chief Human Resources Officer and Controller a list of employees hired during the calendar year of 2020 detailing hire date, title, Division, and hiring manager. Select a sample of 5 Directors and Vice Presidents (if fewer than 5, select all hired) and select 10 additional employees and perform the following:

a. Obtain the employment offer letter and document if the employee was offered additional compensation and benefits above USAC's regular annual salary and benefit's plan.

i. Through inquiry and documented evidence, agree the terms of the full employment offer to USAC's policy to confirm that the offer is in accordance with the policy and inspect the offer for appropriate approval.

4.6d Request a report from HR listing employees terminated (Voluntary or Involuntary) from USAC in 2020. Request in the report employee name, date of hire, division, position at termination, the amount of final paycheck, date of termination, and if the separation was voluntary or involuntary. Select a sample of 5 employees (or 10 if more than 50 terminations) in the calendar year and perform the following:

4.6d.i Recalculate the final paycheck amount and agree the gross amount to regular pay earned through the termination date. Observe if the amount is adjusted properly for accrued vacation or excessive vacation taken. Obtain explanations for any exceptions.

4.6d.ii Inquire of HR if any of the terminated employees received any type of severance payments or severance compensation (i.e. COBRA paid on behalf of USAC or job placement services). For employees that received severance payments or severance compensation, recalculate the amount paid and compare to the severance policy. Inquire and obtain evidence that any severance packages offered to USAC employees who have been terminated were reported to the USAC Executive Compensation Committee at the next schedule meeting.

4.7 Obtain USAC's most recent Cost Allocation Manual (CAM) filed with the Commission. Observe whether the CAM describes the accounts and procedures USAC uses to assign and allocate shared costs and revenues for the universal support mechanisms and its other operations (Section 54.702(k)). Identify the date(s) the CAM was updated during calendar year 2020.

4.8 1. Obtain a schedule showing all expenses, by month, indicating direct expenses and allocated expenses (according to USAC CAM).

2. Compare the allocation factors used in the FCC-approved CAM and the CAM obtained in procedure 4.7.

4.9 Obtain from USAC (program and operations) management their written investment policies and procedures. Observe whether USAC's written investment policies and procedures define USAC's process for obtaining approval and making investments for the universal service support mechanisms as directed by the Commission.

4.10 Obtain a schedule of all debt and investment instruments held throughout 2019, including the date acquired, date disposed, and type. Inquire of USAC whether any items are non-Treasury securities or non-Treasury debt instruments.

4.11 Obtain USAC's accounting records noting whether USAC maintains separate GL accounts for the amounts billed to contributors and amounts paid and due to service providers for eligible schools and libraries, rural health care providers, low-income consumers, and high cost and insular areas.

4.12 Obtain USAC's Statement of Ethical Conduct for Employees policy. Perform the following procedures:

4.12a Inquire of management whether it has taken steps for employees to comply with the policy, including whether management reviewed ethical policies with its employees.

4.12b Select a random sample of ten employees and observe whether each employee has signed the Ethical Conduct of Employees Disclosure form.

4.13 Obtain a list from USAC of all contracts (including new contracts, modifications, amendments and option years) where \$100K or more was expended during calendar year 2020. Obtain a second list from USAC of all contracts (including new contracts, modifications, amendments and option years) USAC entered into during 2020 regardless of the amount expended during 2020. The second listing should show contract amount and amount disbursed. Obtain USAC policies and procedures for entering into new USF procurement contracts during FY 2020. Compare the USAC policies and procedures to the MOU.

Inquire of USAC whether USAC provided the Commission with an opportunity to review and approve in advance any proposed USAC solicitations and contract award decisions for:

(1) sole source contracting above \$100K and

(2) all competitive contracting actions in excess of \$500K.

4.13a From the second listing received above and using only those contracts with award amounts greater than \$10K, select a random sample of 5 contracts and:

4.13a.i Obtain the procurement request package and observe whether each request package includes the items outlined in the MOU (i.e. analysis of why procurement is necessary, synopsis, pricing information, and proposal evaluation criteria).

4.13a.ii Obtain the officer's certification letter provided to the OMD upon vendor selection, certifying the procurement complies with all relevant requirements including those in the MOU.

4.13a.iii Compared the selected vendors to the Excluded Parties Listing System (www.sam.gov).

4.13a.iv Obtain evidence of approval from FCC.

4.14 Obtain USAC's policies and procedures to implement compliance with Section 54.702(d). Inquire of USAC management whether USAC has written policies and procedures to limit advocacy positions before the Commission and its staff only on administrative matters relating to the universal service support mechanisms. Inquire of USAC management whether they advocated positions on non-administrative matters before the Commission, other bodies of government, or other entities. Also inquire of USAC management whether they advocated positions before governmental bodies or other entities other than the Commission on administrative matters relating to the universal service support mechanisms.

4.15 Inquire from USAC management whether the requirements included in the MOU and related OMD letters have been implemented by performing the following procedures:

4.15a Obtain list of all MOU and OMD letter requirements.

4.15b Inquire if any MOU and OMD letter requirements issued in effect during 2020 have not been implemented; if not, include in the report.

4.15c Inquire of USAC management why they have not fully implemented any of the FCC requirements above and include in the report.

4.16 Inquire from USAC management whether it has written policies and procedures to comply with section IV.A.3. of the MOU that requires USAC, as well as its directors, officers, employees, contractors, subcontractors, consultants, agents and all other representatives, to avoid any organizational or personal conflicts of interest or the appearance of a conflict of interest in the administration of the USF and the operations of the USF, including, but not limited to, in connection with audits and procurements.

4.16a Obtain USAC's written policies and procedures to implement compliance with section IV.A.3. of the MOU.

4.16b Inquire from USAC management and include in the report any deviations from this requirement.

4.16c For actual conflicts or the appearance of conflicts, inquire from USAC management and include in the report whether USAC has conducted any analysis to ensure there is no preference (either financially or in terms of the speed of reviews or resolution of issues) given

to any entities that were involved in any of the USF programs in calendar year 2020, including any service providers and recipients of funding.

5. PROGRAM ADMINISTRATIVE EXPENSES

Procedures

5.1 Obtain schedules of actual administrative expenses and capital expenditures incurred for 2019 and 2020. In addition, obtain the budget estimates for administrative expenses and capital expenditures for 2020.

5.1a Obtain a schedule of actual administrative expenses broken down by individual account as maintained in the general ledger (i.e., administrative expenses incurred by each individual mechanism, both directly charged to the support mechanism and charged as overhead to USAC) for 2020 and compare them with the actual administrative expenses incurred for 2019. Identify all account balances of \$100,000 or more in either year where the increase/decrease is 20% or more. Obtain management's explanations.

5.1b Obtain a schedule from USAC that compares the 2020 actual administrative expenses (direct expenses and common expenses) for each individual support mechanism with 2020 budgeted expenses (direct expenses and common expenses) for each individual support mechanism within the same account category in 2020. Identify any variances of +/-10% and \$100,000 or greater. Obtain management's explanations.

5.1c Obtain a schedule from USAC that lists administrative expenses, contribution revenues, disbursements (discounts and support payments), and the percentage of administrative expenses to both disbursements and contributions for each program and all programs combined for 2017, 2018, 2019, and 2020.

5.1d Obtain a schedule from USAC of the total 2020 data collection expenses used to allocate such expenses to USAC and the other administrators (i.e., Telecommunications Relay Services (TRS), Numbering Administration (NANPA), and Local Number Portability (LNP)). Inquire of management how this allocation is calculated, collected, and recorded on the USAC GL.

6. ANTI-FRAUD MEASURES

Procedures

- 6.1 Inquire of USAC (program and operations management and Audit and Assurance Division) whether they are aware of any alleged fraud or suspected fraud that relates to USAC or the fund (internal fraud or external fraud). Obtain from USAC management any documentation that identifies the alleged or suspected fraud and support indicating that the matter was referred to the FCC (Enforcement Bureau or OIG) within 60 days.
- 6.2 Obtain from USAC management USAC's written internal assessment of fraud risk. The written assessment should contain descriptions of USAC's mitigation and monitoring of fraud risks, including, but not limited to, conflicts of interest, related-party transactions, and illegal acts during calendar year 2020. Include USAC's internal assessment in the report.
- 6.3 Obtain a listing of the controls USAC has established to mitigate fraud risk, both internal and external, to USAC and the fund, and inquire of USAC how those risks were monitored during calendar year 2020. Include the results in the report.
- 6.3a Inquire whether USAC has conducted an External Fraud Risk Assessment for each of the USF Programs. If an assessment has been performed, identify the results, including deficiencies noted and corrective action taken. If not performed, please provide the date when an assessment will be performed.
- 6.4 Obtain the written policies and procedures on how USAC communicates to its employees its views on business practices and ethical behavior. Also, inquire of USAC how it communicated to employees these policies and procedures during calendar year 2020.
- 6.5 Inquire of USAC as to the date(s) that USAC (program and operations management and Audit and Assurance Division) reported to the Audit Committee or equivalent body on how its controls serve to prevent fraud, waste, and abuse during calendar year 2020. Obtain from USAC (program and operations management and Internal Audit Division) any documentation (e.g., board minutes, internal memos, written procedures, etc.) indicating that its controls serve to prevent fraud, waste, and abuse.
- 6.6 Discuss with USAC (program and operations management and Audit and Assurance Division) the process over how potential investigations are initiated (e.g., through a call to the hotline, whistleblower, etc.). Obtain a listing of the policies and procedures followed by USAC to open an investigation. When potential investigations are initiated, include in the report the process USAC uses internally to notify the Commission and how USAC determines that investigations should be elevated to law enforcement officials. If appropriate, include the documentation or a summary in the AUP Report.

6.7 Inquire of USAC (program and operations management and Audit and Assurance Division) concerning the type of records kept when there are potential improprieties involving the USF program. Obtain copies of the Whistleblower logs from USAC's Office of General Counsel and select at least one sample from each of the logs received (potentially HC, LI, SLD, RHC and Contributors) but at a minimum select four total sample items and identify the types of documents on file.

7. CONTRIBUTORS (BILLING, COLLECTIONS, AND DCIA)

Procedures

7.1 Obtain a data file related to calendar year 2020 including all Form 499-Q forms used to calculate current monthly charges and the 2019 FCC Form 499-A used for the 2020 true up of 2019 revenue.

7.1a For each FCC Form 499-Q filing by carrier, include: total projected revenue reported (line 120), estimate status, non-responder status, de minimis filer status, limited interstate revenue exemption (LIRE) status, and resulting contribution amount.

7.1b For each FCC Form 499-A filing by carrier, include: total actual revenue reported (line 423), estimate status, non-responder status, de minimis filer status, LIRE status, and resulting true up amount.

7.2 Identify carriers with a “TRUE” non-responder status from the data file. Select a random sample of 45 non-responders (excluding those carriers with a “TRUE” de minimis status on the FCC Form 499-Q Listing) and perform the following procedures:

7.2a Recalculate the USAC estimated revenue contributions and compare the recalculated amount to the estimated revenue contribution per the system (E-FILE). For the FCC Form 499-Q, estimates should be based on $\frac{1}{4}$ of the revenues reported on the latest FCC Form 499-A in the system. For the FCC Form 499-A, estimates should reflect the revenues reported on the filer’s previous year’s FCC Form 499-A filing.

7.2a.i Obtain the call log correspondence and/or notification letter(s) sent to the filer by USAC. If no call log correspondence and/or no notification letter was initiated, obtain the reason why from USAC.

7.2a.ii Inquire of USAC whether any filer with a balance due as of 12/31/2020 has subsequently remitted its payment and the date the payment was made. For these filers inspect the “Late Filing Sanction” on the invoice and observe whether a late filing fee was charged in accordance with FCC Order 07-150.

7.3 For filers that have requested installment payment plans, obtain a list of carrier names, outstanding balance as of 12/31/2020, amounts paid to date, interest charged on the outstanding balance to date, and terms of installment payments for each carrier’s amounts due.

7.3a Inquire of management whether USAC tracks installment payment plan information internally and makes an entry to the general ledger to account for the transaction.

7.4 From the data file obtained in procedure 7.1 above, identify carriers with a “TRUE” de minimis status on the carrier’s Form 499-A filing. Randomly select a sample of ten de minimis

carriers and obtain USAC's de minimis test used to determine whether each carrier is de minimis (§54.708).

7.5 From the data file obtained in procedure 7.1 above, select a non-de minimis, non-estimated random sample of nine Form 499's that have been received by USAC, from each of the following: (1) the 499-Q November 1, 2019 filing, (2) 499-Q February 1, 2020 filing, (3) 499-Q May 1, 2020 filing, (4) 499-Q August 1, 2020 filing and (5) the 499-A April 1, 2019 filing, and perform the following procedures. (If the form was filed in hard copy format, obtain a copy of the signed form. If the form was filed electronically, obtain a copy of the inputs from the database).

7.5a Obtain the A/Q true up letter for the samples associated with the Form 499-A April 1, 2020 filing.

7.5b Recalculate the original or revised form for mathematical accuracy.

7.5c Observe whether the carrier has electronically certified the form.

7.6 From the data file obtained in procedure 7.1 above, identify carriers that have interstate end user telecommunications revenues that comprise less than 12% of their combined interstate and international end user telecommunications revenues. Randomly select five carriers and obtain their 499-A (exclude de minimis filers from the sample selection). Obtain the carrier's invoices and observe whether the carrier was billed for only its interstate revenues (§54.706) (c). If the carrier appears to have been billed inconsistently with the 12% rule, inquire with USAC regarding whether the selected carrier is affiliated with other carriers, and whether the 12% rule was correctly assessed at the holding company level.

7.7 Compare the 499 quarterly filings with the quarterly contribution base snapshot data, which is the data used to prepare the quarterly contribution base filing sent to the Commission. Identify any differences between the 499 information aggregated by USAC and the information sent to the Commission. Obtain an explanation for any differences.

7.8 With respect to the information used to calculate the contribution factors reported on the quarterly USAC filings to the FCC, randomly select ten carriers from the four quarterly filings obtained in procedure 7.5 above. Using this sample selection, compare the information on the Form 499-Q quarterly filings data file to the contribution base filing obtained in procedure 7.7. For any differences, confirm that the carrier's revenue data was revised after the contribution base was filed.

7.9 Obtain USAC's listing for contributors that meet USAC's select annual revenue review criteria. In addition, obtain USAC's review criteria and describe USAC's review criteria in the report. From this data, select a random sample of ten contributors whose current filings meet USAC's criteria and inquire with USAC management whether the filer was contacted by USAC.

Include in the report whether the filer provided USAC with the information and/or documentation requested. If the company did not provide the information and/or documentation requested, obtain evidence that the company was referred to the FCC Enforcement Bureau according to USAC's procedures.

7.10 Obtain from USAC a list of all filers that were inactivated by USAC during calendar year 2020. Select a random sample of ten inactive filers and obtain from USAC management documentation showing the change in status (i.e., legal documents indicating bankruptcy, letter on company letterhead indicating closure, or an email).

7.11 With respect to the accuracy of the invoices that USAC sends to contributors, use the sample of 45 contributors selected in procedure 7.5 above and obtain the invoice for the first billing month for each filing.

7.11a Obtain and recalculate the invoices for mathematical accuracy.

7.11b Agree the carrier name, filer ID#, and revenue amount to the applicable Form 499 submitted to USAC.

7.11c Observe the invoice date and whether the carrier was billed in accordance with USAC's written procedures for billing timeliness.

7.11d Recalculate the invoiced amounts for each mechanism based on FCC-approved contribution formulas in the rules and orders and contribution factors that can be found in the public notices on the FCC's website.

7.11e If a payment is reflected on the invoice sample, agree the amount of the payment reflected on the invoice to the payment received from the carrier (e.g., lockbox documentation, checks, wire transfers, etc.) and identify any differences. If differences are identified, inquire of USAC management for an explanation. Trace the application of the cash receipt to observe whether the next single subsequent cash receipt is applied to the correct carrier's accounts receivable account/balance.

7.11f Agree the daily lockbox report total for the days the above amounts were received, or the wire transfer and ACH amount to the bank statement.

7.12 Obtain a list of Contributor aged delinquent receivables at year-end 2020 and select a random sample of ten accounts older than 30 days. For each selection obtain a copy of the invoice and observe whether USAC has placed the entity on its Red Light List.

7.13 Using the listing of Contributor aged delinquent receivables at year-end 2020 obtained in procedure 7.12, select a random sample of ten accounts older than 120 days. Inquire of USAC and include in the report whether the debt was transferred to the Treasury; if not,

obtain an explanation. Debts whose principle is less than \$100 are not transferred to the Treasury. Observe the date that USAC sent the receivable to Treasury.

7.14 For carriers with a balance due, perform the following procedures:

7.14a Compare the actual allocation of the payment received to an allocation using the appropriate ratios in USAC's quarterly estimated program demand.

7.15 Obtain a database containing all filer IDs and months during calendar year 2019 where the filer ID was assessed late payment interest and penalties. Randomly select a sample of ten and obtain invoices (all pages) showing the late payment fee. For each selection, sum and agree the total Additional Interest included in the Interest and DCIA Penalties section of the invoice and compare the recalculated amount to the late payment fees assessed on the invoice. Additionally, compare the Interest Rates used in the calculation of the Additional Interest amounts in the Interest and DCIA Penalties section of the invoice to an annual rate of prime plus 3.5% for the USAC assessed interest and 6.0% for the DCIA assessed interest.

7.16 Obtain USAC's policy and procedures for writing off USF receivable accounts and for estimating the allowance for doubtful accounts (bad debt) expense.

7.16a Inquire about USAC's policy for calculating the allowance for doubtful accounts of USF receivable accounts and related estimates. List the policies identified and the date of the most recent policy update in the report.

7.16b Compare uncollectible allowance with past two year history and current projections.

7.16c Identify any differences between policy and current projections when compared to past history.

7.17 Inquire with USAC whether there were any write-offs of debt balances in 2020. For any write-offs, obtain evidence of approval by the FCC of the debt balances written-off.

8. HIGH COST SUPPORT MECHANISM

Procedures

8.1 Obtain a list of the following types of carriers: a) carriers receiving High Cost Loop Support (HCLS); b) carriers receiving Frozen High Cost Support (FHCS); c) carriers Connect America Fund Phase II Auction; d) carriers receiving Connect America Fund Phase II (CAFII); e) carriers receiving Rural Broadband Experiments (RBE); f) carriers receiving Connect America Fund Intercarrier Compensation (CAF ICC); g) carriers receiving Mobility Fund I (MF I) h) carriers receiving Connect America Fund Broadband Loop Support (CAF BLS); i) carriers receiving support under the Alaska Plan (AK Plan); j); Alternative Connect America Model I (ACAM) support k) Alternative Connect America Model II (ACAM) support. The list above of carriers receiving support (by component) should come from the HC01 Appendices from January 1, 2020 through December 31, 2020 and include those carriers that have received support for the component in the individual sections of the high cost support mechanism.

8.2 Perform the following procedures:

8.2a Discuss and obtain from USAC management all the written policies and procedures for assuring the accuracy of the Part 36 data assembled and collected by NECA.

8.2b Discuss and obtain from USAC management its assessment of risk associated with Part 36 data and USAC's suggestions for addressing these risks.

8.2c Discuss with NECA the policies and procedures used to perform its Part 36 data collection function (for average schedule and cost companies).

8.2c.i Obtain from the management at NECA the policies and procedures used to perform its Part 36 data collection function.

8.2c.ii Obtain from the management at NECA all the written policies and procedures for assuring the accuracy of the data.

8.2c.iii Obtain from the management at NECA the most recent SSAE 16 (formerly SAS 70) report issued by its independent auditor. Observe whether the SSAE 16 includes a review of NECA's process to reconcile a carrier's supporting documentation to what was submitted.

8.3 Select a sample of 10 Rate-of-Return carriers who received HCL, ICLS and/or and SVS legacy support, confirm that current high cost support is no more than \$250 per line.

9. HIGH COST LOOP SUPPORT

Procedures

9.1 Perform the following procedures:

9.1a Select ten carriers receiving HCL support from the appendices obtained in the HCSM procedure 8.1, and identify the cost companies and average schedule companies. Ensure the selection includes at least two average schedule companies.

9.1b For the cost companies identified in procedure 9.1a above, obtain from NECA the NECA USF cost data used to calculate HCL support for the period under audit (Part 36 Cost Company Data Reports or equivalent). Note that 2020 cost data is used for 2020 cost carrier support payments.

9.1c For the average schedule companies identified in procedure 9.1a above, obtain from NECA the NECA USF average schedule data used to calculate HCL support for the period under audit.

9.1d For the selected cost companies, agree the most updated NECA USF cost data (Part 36 Cost Company Data Reports or equivalent), provided in Procedure 9.1b, to the carriers' written supporting documentation (Data Collection Form), if applicable. Recalculate the Study Area Cost per Loop (SACPL) using the FCC-approved HCL algorithm and the latest carrier cost data provided above. Identify any differences between the SACPL per the NECA 'Updated Cost Data Information' file and the SACPL per the recalculation.

9.1e For the selected average schedule companies, agree the number of loops and number of exchanges between the most updated NECA USF average schedule data, which was provided in 9.1c to the carrier's filed supporting documentation. Note that the carrier's filed support can either be submitted to NECA online or by a paper-based filing. Recalculate the SACPL using the FCC-approved HCL algorithm and the latest average schedule carrier data provided above. Identify any differences between the SACPL per the NECA 'Average Schedule Company Data' file and the SACPL per the recalculation.

9.1f Obtain from NECA the most updated National Average Cost Per Loop (NACPL) for 2020 support for the month or months under audit. Note: Total loops are contained in the carriers' data.

9.1g Using the FCC approved HCL algorithm, recalculate the actual monthly and annual HCL support amount calculated by NECA for each of the cost schedule carriers selected in procedure 9.1a. Compare the recalculated amount to the actual monthly and annual HCL support amount disbursed by USAC based on the NECA SFTP file (RURALNACPL200XXDX, also known as the Projected Payments File). Note: Recalculating the actual monthly and annual HCL support amount using the algorithm requires the SACPL recalculated in Procedure 9.1.d

and the NACPL at the time NECA provided the NECA SFTP file. Where the selected cost companies also receive HCL Acquired Exchange Support (AES), calculate additional HCL AES. Confirm that the AES amount disbursed was the lesser amount of support based on AES rates multiplied by lines, or carrier costs.

9.1h Using the FCC approved HCL algorithm, recalculate the actual monthly and annual HCL support amount calculated by NECA for each of the average schedule carriers selected in procedure 9.1a. Compare the recalculated amounts to the actual monthly and annual HCL support amount disbursed by USAC based on the NECA SFTP file (RURALNACPL200XXDX, also known as the Projected Payments File). Note: Recalculating the actual monthly and annual HCL support amount using the algorithm requires the SACPL recalculated in Procedure 9.1.e and the NACPL at the time NECA provided the NECA SFTP file. Where the selected average schedule companies also receive HCL AES, calculate additional HCL using HCL AES rates and loops provided by USAC.

9.1i For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2020 program year. Also, observe whether the 54.314 certification filed with the FCC includes a reference to CC Docket No. 96-45 or WC Docket No. 14-58 and a statement that "the support provided will be used only for the provision, maintenance, and upgrading of facilities and service for which the support is intended."

9.1j For each selection, obtain the 54.313 and 54.314 annual certifications and observe whether the certifications were filed on time (7/1/17 for 54.313 and 11/17/17 for 54.314 (FCC DA 17-848 extended 2017 54.314 annual certification deadline from 10/1/17 to 11/17/17)) based on the date shown in the carriers FCC Form 481 submitted for the program year. If the carrier's certification was filed after the due date, obtain the payment file from USAC and inquire whether the carrier received support beginning in the correct quarter in accordance with (§54.313(d) (3) (i), (ii), (iii), (iv), and (v) and §54.314(d) (1), (2), (3), and (4)).

9.2 Perform the following procedures:

9.2a From the samples selected in the High Cost Loop Support procedures 9.1a, identify carriers receiving SVS. If there are no carriers receiving SVS in the selected sample, choose a carrier that receives SVS from USAC's website.

9.2b For the carrier(s) identified above in procedure 9.2a, compare the formula used to calculate the actual SVS amount disbursed in July 2020 with the formula contained in section 54.305 of the FCC's rules and identify any differences. Recalculate the July 2020 SVS calculation and compare the recalculated amount to the actual SVS distributed in July 2020.

9.2c Obtain from USAC the certification received from each of the carriers who received SVS identified in procedure 9.2.a. Note that the certification certifies that the carrier acquired lines and established its index year for purposes of determining eligibility for SVS.

9.3 Recalculate the 2020 annual cap and compare the recalculated amount to the amount of High Cost Loop incumbent carrier support distributed in 2020.

a. The 2020 annual cap is equal to the capped amount of the total rural Incumbent Local Exchange Carrier (ILEC) loop cost expense adjustment multiplied by $[1 + \text{rural growth factor}]$. Obtain the monthly disbursement files for the year and compare the annual disbursement amount with the recalculated annual cap and identify any differences.

9.4 Select one month within the 3rd Quarter 2020 and obtain the disbursement authorization from USAC for the selected month. Inspect the disbursement authorization form for signature and compare the signature to a list from USAC of individuals authorized to approve the form and observe whether the signature on the form is on the list of management individuals authorized to approve the form.

9.5 Obtain the Form 498 and Study Area Code (SAC) and inspect whether the SPIN assigned to the carriers selected in procedure 9.1a agrees with the correct SAC for which support is eligible.

10. FROZEN HIGH COST SUPPORT

Procedures

10.1 Select five carriers receiving FHCS from the High Cost Frozen Support DA 12-298 file published on the USAC website. (<http://www.usac.org/hc/tools/news/default.aspx>). Exclude any carriers who relinquished their ETC designation prior to 2020.

10.1a For each selection, obtain the effective date of the carrier's ETC designation order and compare the effective date of the designation order to the date the carrier began receiving support for the 2020 program year. Also, observe whether the 54.314 certification filed with the FCC includes a reference to CC Docket No. 96-45 or WC Docket No. 14-58 and a statement that "the support provided will be used only for the provision, maintenance, and upgrading of facilities and service for which the support is intended." For each selection, obtain the 54.313 and 54.314 annual certifications and observe whether the certifications were filed on time (7/1/17 for 54.313 and 11/17/17 for 54.314 (FCC DA 17-848 extended 2017 54.314 annual certification deadline from 10/1/17 to 11/17/17)) based on the date shown in the carriers FCC Form 481 submitted for the program year. If the carrier's certification was filed after the due date, obtain the payment file from USAC and inquire whether the carrier received support beginning in the correct quarter in accordance with §54.313(d) (3) (i), (ii), (iii), (iv), and (v) and §54.314(d) (1), (2), (3), and (4)).

10.2 For the selected carriers in procedure 10.1, compare the "Monthly Frozen HC Support" amount as stated in the High Cost Frozen Support DA 12-298 file to the High Cost Disbursement Tool. Identify any discrepancies.

10.2a Confirm that Frozen High Cost Support received by Competitive Eligible Telecommunications Carriers (CETC) in 2019 has been reduced the required percentage from the original amount as stated in the High Cost Frozen Support DA 12-298 file.

10.3 Select one month within the 3rd Quarter 2019 and obtain the Disbursement Authorization Form (DAF) from USAC for the selected month. Inspect the DAF for signature and compare the signature to a list from USAC of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individuals authorized to approve the Form.

10.4 Inspect the Form 498 and SAC and observe whether the SPIN assigned to the carriers selected in procedure 10.1 agrees with the correct SAC for which support is eligible.

11. CONNECT AMERICA FUND PHASE II AUCTION

Procedures

11.1 Select a sample of 15 carriers who received CAF II Auction funding from the population obtained in HCSM procedure 8.1.

11.1a For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2020 program year.

11.2 Obtain the Letter of Credit (LOC) and Opinion of Counsel (OOC) submitted by the carrier to USAC, and the Public Notice authorizing USAC to disburse support. Confirm that these items were received prior to carriers receiving their first disbursement.

11.2a Confirm that the correct amount was disbursed as indicated in the Public Notice. Also confirm that the amounts disbursed were in accordance with the schedule provided in FCC 19-8 for the transition of Price Cap and CETC carriers Legacy support.

11.3 Select one month during the second half of 2020 and obtain the DAF. Inspect the DAF for signature and compare the signature to a USAC list of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individuals authorized to approve the Form.

11.4 Inspect the Form 498 and SAC and observe whether the SPIN assigned to the carriers selected in procedure 11.1 agrees with the correct SAC for which support is eligible.

12. CONNECT AMERICA FUND (CAF) II

Procedures

12.1 Select 10 carriers who received CAFII support in 2020 from the population obtained in HCSM procedure 8.1.

12.1a For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2019 program year.

12.2 Obtain a copy of the Public Notice issued by the FCC authorizing USAC to issue support and confirm that the correct amount was disbursed.

12.3 Select one month within the second half of 2020 and obtain the DAF from USAC for the selected month. Inspect the DAF for signature and compare the signature to a list from USAC of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individual authorized to approve the Form.

12.4 Inspect the Form 498 and SAC and observe whether the SPIN assigned to the carriers selected in procedure 12A.1 agrees with the correct SAC for which support is eligible.

13. RURAL BROADBAND EXPERIMENTS

Procedures

13.1 Select five carriers who received RBE support from the population obtained in HCSM procedure 8.1.

13.1a For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2020 program year.

13.2 Obtain the Letter of Credit (LOC) and Opinion of Counsel (OOC) submitted by the carrier to USAC, and the Public Notice authorizing USAC to disburse support. Confirm that these items were received prior to carriers receiving their first disbursement.

13.2a Confirm that the correct amount was disbursed as indicated in the Public Notice.

13.3 Select one month during the second half of 2020 and obtain the DAF. Inspect the DAF for signature and compare the signature to a USAC list of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individuals authorized to approve the Form.

13.4 Inspect the Form 498 and SAC and observe whether the SPIN assigned to the carriers selected in procedure 12.1 agrees with the correct SAC for which support is eligible.

14. CONNECT AMERICA FUND INTERCARRIER COMPENSATION

Procedures

14.1 Select six carriers receiving CAF ICC from the appendices obtained in the HCSM procedure 8.1. Select three of the carriers that are identified as Price Cap (PC) carriers and three that are identified as Rate-of-Return (ROR) carriers.

14.1a For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2020 program year. Also, observe whether the 54.314 certification filed with the FCC includes a reference to CC Docket No. 96-45 or WC Docket No. 14-58 and a statement that "the support provided will be used only for the provision, maintenance, and upgrading of facilities and service for which the support is intended."

14.1b For each selection, obtain the 54.313 and 54.314 annual certifications and observe whether the certifications were filed on time (7/1/17 for 54.313 and 11/17/17 for 54.314 (FCC DA 17-848 extended 2017 54.314 annual certification deadline from 10/1/17 to 11/17/17)) based on the date shown in the carriers FCC Form 481 submitted for the program year. If the carrier's certification was filed after the due date, obtain the payment file from USAC and inquire whether the carrier received support beginning in the correct quarter in accordance with (§54.313(d) (3) (i), (ii), (iii), (iv), and (v) and §54.314(d) (1), (2), (3), and (4)).

14.1c Obtain from NECA the Tariff Review Plan (TRP) the carrier filed either with NECA (if a member of NECA's Traffic-Sensitive pool) or directly with USAC on or before June 18, 2019. A responsible company representative certifies that to the best of his or her knowledge information contained in the TRP is accurate and complies with the FCC's filing requirements.

14.2 For carriers selected in CAF ICC support procedure 13.1 above, compare data entries in the TRP with data entered into the CAF ICC database. More specifically, for PC carriers compare data submitted by the carrier with entries in the Access Database: USACHCLI_CAF_ICC_PC_DATA. For ROR carriers compare carrier data with entries in the Access Database: USACHCLI_CAF_ICC_ROR_DATA. Identify and include in the report any and all differences between the two data sources.

14.3 Identify those PC and ROR ILECs in the sample that belong to a holding company. Reference Footnote 1818 in FCC11-161 that explains the approach for reallocating Access Recovery Charge (ARC) revenues across the holding company. Work with USAC's High Cost Program Manager to develop an algorithm that reallocates ARC revenues at the holding company level. Construct EXCEL spreadsheets, one for PC ILECs and another for ROR ILECs that replicate the FCC's algorithm for computing CAF ICC support. Compare CAF ICC support from the CAF ICC Manger's EXCEL spreadsheet with CAF ICC support computed with USAC's High Cost Low Income (HCLI) system. System results are located in the back-end Access

Database: USACHCLI_CAF_ICC_ILEC_DISB_DATA. Results can also be found in the HCLI system front-end: Reports, Analysis, Capped, and Comparison of HC Disbursement Data/Month/CAF ICC/ILEC. Identify and include in the report any and all result differences between the two computations.

14.4 Select one month during the last six months of 2020 and obtain the DAF. Inspect the DAF for signature and compare the signature to a USAC list of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individuals authorized to approve the Form.

14.5 Inspect the Form 498 and SAC and observe whether the SPIN assigned to the carriers selected in procedure 13.1 agrees with the correct SAC for which the support is eligible.

15. MOBILITY FUND I

Procedures

15.1 Obtain a list of carriers who received Mobility support from 1/1/2020 to 10/31/2020 and select ten carriers (if less sample all) receiving support from MF I.

15.1a For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2020 program year in accordance with 47 C.F.R. 54.1003. In addition, for each carrier compare the date support went out, to the Public Notice or authorization email from the FCC, to confirm that the support wasn't disbursed before USAC was directed by the FCC to do so.

15.1b Obtain the 54.314 certifications filed by carriers due 10/1/2020.

15.1c Obtain the FCC Form 690 filed by the carriers due 7/1/2020.

15.2a Obtain the email, Public Notice, attachment and excel file, for each carrier selected and confirm that the amount disbursed to them agrees to the amount listed in the column headed "Initial Amount Authorized (one-third of Winning Bid Amount)".

15.3 For carriers who received payment 2 or payment 2 and 3 in 2020, obtain the FCC Form 690 and attached documentation, the engineering report provided by CNV detailing the results of their tests, and the email USAC received from the FCC giving authorization for the payment. Confirm that these were received prior to their disbursement.

15.3a Obtain the Public Notice, attachment and excel file, for each carrier selected and confirm that the amount disbursed to them is equal to one third (for carriers who elected to receive payment 2 only) or two-thirds (for carriers who elected to receive payments 2 and 3 at one time) of the amount listed in the column headed "Winning Bid Amount."

15.4 Obtain the DAF from one month in the 3rd quarter of 2020. Inspect the DAF for signature and compare the signature to a list from USAC of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individuals authorized to approve the Form.

15.5 Inspect Form 498 and SAC and observe whether the SPIN assigned to the carrier (selected in procedure 14.1) to make support payments agrees with the correct SAC for which support is eligible.

15.6 Select five (if less sample all), Mobility defaults from calendar year 2020 and inquire from USAC the reasons for the defaults. Obtain the pertinent FCC emails from USAC supporting the defaults, compare to the carriers selected, and inquire with USAC management whether the defaults are processed in accordance with FCC rules and USAC procedures. Include any exceptions in the report.

16. CONNECT AMERICA FUND BROADBAND LOOP SUPPORT.

Procedures

16.1 Select ten carriers receiving CAF BLS from the population obtained in the HCSM procedure 8.1.

16.1a For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2020 program year. Also, observe whether the 54.314 certification filed with the FCC includes a reference to CC Docket No. 96-45, WC Docket No. 14-58, or WC Docket No. 10-90 and a statement that "the support provided will be used only for the provision, maintenance, and upgrading of facilities and service for which the support is intended."

16.1b For each selection, obtain the 54.313 and 54.314 annual certifications and observe whether the certifications were filed on time (7/1/17 for 54.313 and 11/17/17 for 54.314 (FCC DA 17-848 extended 2017 54.314 annual certification deadline from 10/1/17 to 11/17/17)) based on the date shown in the carriers FCC Form 481 submitted for the program year. If the carrier's certification was filed after the due date, obtain the payment file from USAC and inquire whether the carrier received support beginning in the correct quarter in accordance with (§54.313(d) (3) (i), (ii), (iii), (iv), and (v) and §54.314(d) (1), (2), (3), and (4)).

16.2 For each carrier chosen in procedure 16.1, recalculate the support received during second quarter 2020 in accordance with applicable FCC rules (CAF BLS rules 54.901(a)). Compare the recalculation to the USAC detailed disbursement authorization and identify any differences.

16.3 Select one month within the second quarter 2020 and obtain the DAF from USAC for the selected month. Inspect the DAF for signature and compare the signature to a list from USAC of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individuals authorized to approve the Form.

16.4 Inspect the Form 498 and SAC and observe whether the SPIN assigned to the carrier selected in procedure 16.1 to make support payments agrees with the correct SAC for which support is eligible.

17. ALASKA PLAN

Procedures

17.1 Select ten carriers receiving Alaska Plan support per the FCC DA 16-1425 from the population obtained in the HCSM procedure 8.1.

17.1a For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2020 program year.

17.1b For each selection, obtain the 54.313 and 54.314 annual certifications and observe whether the certifications were filed on time (7/1/17 for 54.313 and 11/17/17 for 54.314 (FCC DA 17-848 extended 2017 54.314 annual certification deadline from 10/1/17 to 11/17/17)) based on the date shown in the carriers FCC Form 481 submitted for the program year. If the carrier's certification was filed after the due date, obtain the payment file from USAC and inquire whether the carrier received support beginning in the correct quarter in accordance with (§54.313(d) (3) (i), (ii), (iii), (iv), and (v) and §54.314(d) (1), (2), (3), and (4)).

17.2 Obtain a copy of the Public Notice issued by the FCC authorizing USAC to issue support and confirm that the correct amount was disbursed.

17.3 Select one month within the second quarter 2020 and obtain the DAF from USAC for the selected month. Inspect the DAF for signature and compare the signature to a list from USAC of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individuals authorized to approve the Form.

17.4 Inspect the Form 498 and SAC and observe whether the SPIN assigned to the carrier selected in procedure 17.1 to make support payments agrees with the correct SAC for which support is eligible.

18. ALTERNATIVE CONNECT AMERICA MODEL SUPOORT

Procedures

18.1 Obtain a list of carriers who received ACAM support in 2020 and select ten carriers. See DA 18-465, DA 18-1091 and DA 16-869.

18.1a For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2020 program year.

18.2 Obtain a copy of the Public Notice issued by the FCC authorizing USAC to issue support and confirm that the correct amount was disbursed.

18.3 Select one month within 2020 and obtain the DAF from USAC for the selected month. Inspect the DAF for signature and compare the signature to a list from USAC of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individual authorized to approve the Form.

18.4 Inspect the Form 498 and SAC and observe whether the SPIN assigned to the carriers selected in procedure 18.1 agrees with the correct SAC for which support is eligible.

19. ALTERNATIVE CONNECT AMERICA MODEL II SUPPOORT

Procedures

19.1 Obtain a list of carriers who received ACAM II support in 2020 and select ten carriers. See DA 19-808.

19.1a For each selection, obtain the effective date of the carrier's ETC designation order and observe whether the carrier was designated as an ETC prior to receiving support for the 2020 program year.

19.2 Obtain a copy of the Public Notice issued by the FCC authorizing USAC to issue support and confirm that the correct amount was disbursed.

19.3 Select one month within 2020 and obtain the DAF from USAC for the selected month . Inspect the DAF for signature and compare the signature to a list from USAC of individuals authorized to approve the Form and observe whether the signature on the Form is on the list of management individual authorized to approve the Form.

19.4 Inspect the Form 498 and SAC and observe whether the SPIN assigned to the carriers selected in procedure 18B.1 agrees with the correct SAC for which support is eligible.

20. LIFELINE SUPPORT MECHANISM (LOW INCOME)

Procedures

20.1 Obtain the Low Income Disbursement Report from USAC for the month ended October 31, 2020, and select a sample of 45 carriers with disbursements greater than \$5,000. Based on the 45 carriers selected, obtain the carriers' Lifeline Claims Worksheets that are related to the carriers' disbursement amounts and perform the following (inquire with USAC that all carrier types are represented in the sample):

20.1a Recalculate the disbursement report that corresponds to the sample period for mathematical accuracy.

20.1b Agree each disbursed amount (Lifeline and Link-up) to the Lifeline Claims Worksheet by comparing the remittance statement to the Compare Report, in the case of an adjustment or override.

20.1c Recalculate each of the 45 Lifeline Claims Worksheets for mathematical accuracy and identify any differences:

- i. Non-Tribal Lifeline uses a flat support rate of \$9.25 for all subscribers.
- ii. Tribal Lifeline support rate may not exceed \$34.25.

20.1d Inspect the certification statement on each of the Lifeline Claims Worksheet on file for signature.

20.1e Inquire of USAC management whether the selected carrier is a Tribal Land eligible carrier. For all Tribal Land carriers, observe that the Tribal Lifeline rate on the Lifeline Claims Worksheet did not exceed \$34.25.

20.1f Link Up support is available only to carriers serving residents of Tribal Lands and receiving High Cost support. The Tribal Link-Up charge waived per connection line item limit may not exceed \$100. Observe on the Lifeline Claims Worksheet that Linkup support was only provided to Tribal Land eligible carriers and that claims did not exceed \$100 per connection line.

20.1g Observe whether each local exchange carrier and CETC is an Eligible Telecommunications Carrier (ETC) by agreeing the company to the Eligible Carrier Status Report.

20.2 Obtain the Disbursement Authorization Report from management for the month of October 2020 and perform the following:

20.2a Agree the total disbursement amounts (including all adjustments and overrides) per the October 2020 Disbursement Authorization Report to the Low Income System.

20.2b Agree the total approved amount of Low Income support disbursed in October 2020 to the accounts payable control report, and individual payments for selected carriers from procedure 19.1 above to check copies or transfers and a bank statement. Identify any differences that are not due to the Red Light Rule.

20.2c Re-submit the carrier data in the Low Income Disbursement Tool and observe whether a duplication of payment exists for the carriers selected in procedure 19.1 above.

21. RURAL HEALTH CARE SUPPORT MECHANISM (TELECOM)

Procedures

21.1 Obtain from USAC's Rural Health Care Division a report (data file) of all support request transactions (commitments, disbursements, and processed line items) by FRN in the calendar year 2020 (including requests from prior years with transactions in the calendar year). The Report should include all transactions up to the last funding wave prior to the selection (i.e., October 31). The data file should be pulled from the applicable system.

21.2 Extract the five largest FRNs based on the committed amount of the FRN and five largest FRNs based on the disbursed amount during the calendar year. Randomly select an additional 45 FRNs with committed or disbursed dollar values greater than \$5,000 from the remaining population. For each FRN selected above perform the following procedures:

21.2a Obtain a copy of the FCC Forms 465, 466, 467, Funding Commitment Letter (FCL), Health Care Provider Support Schedule (HSS), and invoices submitted (if any) and agree, as applicable, the Health Care Provider (HCP) name, HCP number, address, FRN, service provider name, and SPIN on each form to the corresponding information contained within the Report (note that service provider information is not found on Form 465).

21.2b Compare the services requested and funding on the Form 466 to the approved funding amount per the corresponding FCL or HSS. Identify any differences.

21.2c If there are billable miles greater than zero on Form 466, recalculate the Maximum Allowable Distance (MAD) for the HCP, using Google Maps Street Atlas 9.0, or any other applicable resources. If the billable miles on Form 466 exceeds the recalculated or listed MAD, observe whether the recalculated and listed MADs are within 2 miles (if under 100 miles) or 3% of each other.

21.2d Using the "List of Eligible Rural Areas" search tool on the Rural Health Care section of the USAC website, observe whether the applicant is located in an eligible rural area. If not in a rural area as determined by the 2010 census data, confirm that site is grandfathered rural (i.e. was determined to be rural prior to 7/1/2005). Include any discrepancies in the report.

21.2e Observe whether the service provider(s) for the FRN are on the service provider list obtained from RHCD. Include any exceptions in the report.

21.2f Observe the date the Form 465 application was posted to the Telecom Program Search Posted Services website (the "posting date"), and compare that to the date the Form 465 was dated by the applicant. Include in the report any instances where the Form 465 dated by the applicant was after the Form posting date.

21.2g Compare the date the Form 465 application was posted to the RHC Support Mechanism website to the date the Form 466 was signed by the applicant. Observe that the Form 466 was not signed before the 28-day competitive bidding waiting period (the Allowable Contract Selection Date or ACSD), unless the HCP is exempt from competitive bidding (for example, if the HCP is listed on the Evergreen contract list). Include any exceptions in the report.

21.2h Observe whether the applicants that e-certified their Forms 466 also submitted the supplemental documentation (e.g., bids, contracts, bills) required by the RHC Division policies.

21.2i For FRNs with service provider contracts (i.e., for FCLs that have an Evergreen endorsement), observe whether the contract was reviewed by USAC to determine if it met RHC requirements for classification as an Evergreen contract.

21.2j Observe whether the support start date used to generate the HSS is the later of the Service Start Date given by the customer on Form 467, or the Eligible Support Start Date given on the FCL. If the Service Start Date on Form 467 is later than the Eligible Support Start Date on the FCL, observe whether the HSS letter sent to the applicant reflects the reduction in the amount of support in accordance with the shorter support period.

21.2k Obtain the supporting Form 466 and ascertain whether the amount was computed correctly by recalculating the support amount per the applicable Form 466 and the documentation (e.g., contracts, bills) submitted by HCP.

21.2l Agree the support amount as indicated on the supporting HSS to the approved FCL, or as reduced by the service start date on the Form 467. In the instance that there are differences, observe that the total Approved Funding on the HSS is less than the FCL.

21.3 For Sample FRNs selected with disbursements in the calendar year, select one invoice per each FRN and perform the following:

21.3a Obtain and agree the Service Provider Name and SPIN, per the service provider invoice and the approved HCP FCL to the Report (processed line items tab).

21.3b Compare the invoices submitted for the FRN and observe whether the line item amount exceeded the approved “support amount” for the same month per the HSS. Inquire with USAC whether they are in accordance with USAC policy and procedures.

21.3c Obtain the corresponding RHCD Invoice Reconciliation Report and RHC Payment file and observe evidence of approval of the information as required by USAC’s RHC Division, and a formal sign off.

21.3d Agree the Billing Account Number, invoice header, and line item information to the HSS. If a discrepancy is found, request the revised HSS and correspondence with the service provider that documents the change.

21.3e Agree the invoice amount per the invoice to the RHC Support Mechanism Invoice Reconciliation, RHC Payment file or the Report (processed line items tab). Identify any differences for invoices that were approved (not denied).

21.3f For processed line items that were denied, obtain from management all information necessary to support the denial. Randomly select ten line items and compare the Report (processed line items tab) information received to the denial reason code indicated on the "For RHCD use only" portion of the RHCD Service Provider Invoice.

21.4a Obtain a narrative from USAC that documents the process used to record commitments made in RHC for Federal Budget purposes (OMB Circular A-11). The narrative prepared by USAC should identify from beginning to end all steps, internal controls, and source documents used to compile the commitment ending balances. Include the narrative in the report.

21.4b Obtain a roll forward schedule from USAC for October 2020 that includes 1) the new commitments for the month, 2) the new disbursements for the month, 3) commitments recovered during the month, 4) other adjustments made to the balance for the month, and 5) the ending balance for each month. Trace the activity for the period to the budgetary accounts within the general ledger.

21.4c Obtain the supporting schedules from USAC for the October 2020 activity that supports 1-5 in procedure 20A.4b above. Compare the totals on the supporting schedules to the entries on the period's rollforward schedule. Obtain a reconciliation of any differences resulting from errors and explanations from USAC management.

21.4d Obtain a report showing the outstanding balance for each FRN that sought funding from FY2013 and forward. Randomly select 50 outstanding FRNs with outstanding balances. Trace the total outstanding amount as of October 31 to the rollforward schedule. Obtain a reconciliation of any differences resulting from errors and explanations from USAC management.

21.4e For the selected FRNs in procedure 20A.4d above, obtain the corresponding FCL, HSS, and Form 467 from RHCD and perform the following:

21.4e.i Trace the commitment date and amount to the FCL letter (or equivalent).

21.4e.ii Trace the disbursements made to the HSS issued to the applicant/service provider, and identify any disbursement that is more than the total support amount allowed per the HSS.

21.4e.iii Recalculate the outstanding commitment amount as commitment minus disbursements minus commitments which applicant or service provider have disclaimed on Form 467 or other correspondence (e.g., notification that service has ceased) equals outstanding commitments. Compare the outstanding amount to the supporting schedule(s) obtained in procedure 20A.4c above. Obtain a reconciliation of any differences and explanations from USAC management in the report.

21.4f From the data file obtained in procedure 20A.4d above, extract the 10 largest outstanding FRNs as of October 31 from the last five funding years. Then randomly select an additional sample of 40 FRNs over \$200 and confirm the 50 outstanding balances with the service provider and the applicant using positive confirmations. List the dollar amounts of the confirmations in the exhibit in the report. With the help of USAC, the external auditors should prepare a confirmation letter and contact the service provider and applicant. Email the letter to the service provider and applicant for completion. Obtain a signed email from both the applicant and the service provider showing the outstanding commitment amount for the selected FRN. Obtain a reconciliation and/or explanation from USAC management for any differences. The auditor will make at least three attempts on different days via telephone or email to reach the applicant or service provider and include in the report any unsuccessful attempts. List the applicant or service provider as non-responsive one week after the third contact attempt if no response has been received.

22. RURAL HEALTH CARE SUPPORT MECHANISM (HCP)

Procedures

22.1 Obtain from USAC's RHC Care Division a Report (data file) of all support request transactions (commitments, disbursements, and processed line items) by FRN in the calendar year (including requests from prior years with transactions in the calendar year). The Report should include all transactions up to the last funding wave prior to the selection (i.e., October 31).

22.2 Extract the six largest FRNs based on the committed amount of the FRN (3 consortia and 3 individual) and six largest FRNs based on the disbursed amount during the calendar year (3 consortia and 3 individual). Randomly select an additional 38 FRNs with committed or disbursed dollar values greater than \$5,000 from the remaining population (19 consortia and 19 individual), with no one service provider responsible for more than 25% of the FRNS. For each FRN selected above perform the following procedures:

22.2a Obtain a copy of the FCC Forms 460, 461, 462 and associated NCW, FCL and invoices submitted (if any) and agree, as applicable, the HCP name, HCP number, address, FRN, service provider name, and SPIN on each form to the corresponding information contained within the Report (note that service provider information is not found on Form 460 or Form 461).

22.2b Observe whether the applicants that certified their Form 462 also submitted the supplemental documentation (e.g., bids, contracts, bills) required by the RHC Division policies.

22.2c Compare the services requested on the Form 462 with the services requested on the associated Form 461. All Form 462 services should have been contemplated through Form 461 posting (correspondence, matrix, etc.). Include any exemptions in the report.

22.2d Compare the services requested and funding on the Form 462/NCW to the approved funding amount per the corresponding FCL. Observe that the service(s) are an eligible service type for HCF. Identify any differences.

22.2e Observe whether the HCP(s) receiving the services on the Form 462 are eligible entity types per HCF program rules. Include any discrepancies in the report.

22.2f Observe whether the service providers for the FRN is on the service provider list obtained from RHCD. Include any exceptions in the report.

22.2g Compare the date the Form 461 application was posted to the HCF Search Posted Services website (the "posting date"), to the date the Form 461 was dated by the applicant.

Observe any instances where the Form date was on or before the posting date and include any such instances in the report.

22.2h Compare the date the application was posted to the RHC Support Mechanism website to the date the Form 462 was dated by the applicant. Observe whether the Form 462 was not signed before the 28-day competitive bidding waiting period, unless the HCP is exempt from competitive bidding (i.e., has an Evergreen contract or meets one of the other HCF exemptions). Include any exceptions in the report.

22.2i For FRNs with service provider contracts (i.e., for FCLs that have an Evergreen endorsement), observe whether the contract was reviewed by USAC to determine if it met RHC requirements for classification as an Evergreen contract.

22.2j Obtain the supporting Form 462 or NCW and ascertain whether the amount was computed correctly by recalculating the support amount per the applicable Form 462 or NCW (procedure 20B.2d above) and agreeing the recalculated support amount to the 'Committed' support amount per the data file.

22.3 For sample FRNs selected with disbursements in the calendar year, perform the following:

22.3a Obtain and agree the Service Provider Name and SPIN per the Form 463 invoice and the approved HCP FCL to the Report.

22.3b Compare the invoices submitted for the FRN and observe whether the line item amount exceeds the approved "support amount" for the same month per the NCW line item. Inquire with USAC whether they are in accordance with USAC policy and procedures.

22.3c Obtain the corresponding Form 463 Invoice Report and RHC Payment file for evidence of review of the information as required by USAC's RHC Division, and a formal sign-off. Agree the invoice amount per the invoice to the Form 463 Invoice Report, RHC Payment file or the Report. Identify any differences for invoices that were approved (not denied).

22.4 Obtain from USAC's RHC Division a data file of all FCC Forms 460 submitted during the year. The file should include the date received, HCP number, application number, site name, application type, the decision, and decision date.

22.4a Obtain from USAC's RHC Division a copy of the FCC Form 460 Eligibility Procedures to assess compliance with the eligibility requirements.

22.4b Using the data file obtained in procedures 20B.4, for all items in the report, compare the received date per the spreadsheet to decision/approval date per the spreadsheet and calculate the number of days between receipt and "decision." For instances where the number of days exceeds 30, select a sample of 5 HCPs greater than 100 days and select 35

HCPs greater than 30, but less than 100 days. For each sample, identify any correspondence sent to the applicant to clear up issues. Include in the report any instances where the number of days from 'date issue is cleared' is over 30.

23. SCHOOLS AND LIBRARIES

Procedures

23.1 Select a sample of five USAC management funding commitment decisions (Funding Request Numbers (FRNs) from five different Forms 471s processed in Commitment Year (CY) 2020 by the Program Integrity Assurance (PIA) function). Access or obtain screen prints from STARS or EPC to see which exceptions were generated and observe PIA procedures for that exception. Compare the PIA response to the exception documented in STARS or EPC, to the corresponding FCC Rules Matrix. Include any exceptions in the report.

23.2 Select a sample of five USAC management funding recovery decisions (FRNs from five different Form 471s processed in CY 2020 by the COMAD function in STARS or EPC). For each selection, observe in COMAD the CAL violation comment and compare the violation comment to the COMAD violation table obtained from the USAC. Note that the Commission's Fifth Report and Order (FCC 04-190) prohibits recovery of funding based on a procedural rule violation, including a USAC procedure. Include any exceptions in the report.

23.3 Obtain the service substitution log and randomly select 45 ad hoc (e.g., non-global) service substitution FRNs submitted, processed, and completed the period 01/01/2020 through 10/31/2020 (includes all funding years) and perform the following:

23.3a Obtain from USAC the letter (or subsequent correspondence) for each sample item and observe whether the letter/correspondence included the following: a) the four required certifications, b) information to allow for the identification of the Funding Request in question, c) applicant signature or electronic signature; and d) a listing of the products and services originally approved for which changes are requested, including a similar listing of the products and services desired. This is sometimes described as a "from" and "to" list.

23.3b Observe that the substituted service or equipment did not result in an increase in commitment and is consistent with the original Form 470 posting.

23.3c Include any exceptions to 21.3a and 21.3b in the report.

23.4 Obtain access to the Form 500 data file (includes all funding years), for all Form 500s submitted, processed, and completed during the period 01/01/2020 through 10/31/2020. Randomly select 45 Form 500 changes with a unique Form 500 number and FRN, and compare the Form 500 to the database and observe whether the information on the form is recorded in the database, including whether the FRN commitment amount was adjusted in accordance with the Form 500 submitted.

23.5 Randomly select 45 ad hoc (e.g., non-global) SPIN changes submitted, processed, and completed during the period 1/01/2020 through 10/31/2020 where the original commitment was greater than \$5,000.

23.5a From the sample selected in procedure 21.5 above, compare the original amount to the amount available to the new service provider to observe whether the amount of funding available for the new service provider is limited to the amount originally committed on that FRN less the amount paid to the original service provider. Include any exceptions in the report.

23.5b From the sample selected in procedure 21.5 above, inquire of USAC management whether USAC made any additional payments on the FRN to the original service provider for services delivered after the effective date of the ad hoc SPIN change or to the newly requested service provider for services delivered prior to the effective date of the approved SPIN change. The effective date of the SPIN change is the date the applicant indicated they changed service providers. If the SPIN change request was denied, inquire of USAC management whether USAC made any payments to the newly requested service provider on the FRN. Include any exceptions in the report.

23.5c From the sample selected in procedure 21.5 above, confirm that the SPIN changes were made in accordance with the requirements for SPIN changes established by the FCC. Include any exceptions in the report.

23.6 Perform the following procedures:

23.6a Obtain a narrative from USAC that documents the process used to record commitments made in the SLD support mechanism for Federal Budget purposes (OMB Circular A-11). The narrative prepared by USAC should identify from beginning to end all steps, internal controls and source documents used to compile the commitment ending balances. Include the narrative in the report.

23.6b Obtain a roll forward schedule from USAC for the month of October 2020 that includes:

- 1) the new commitments for the month,
- 2) the new disbursements for the month,
- 3) commitments recovered during the month,
- 4) other adjustments made to the balance for the month, and
- 5) the ending balance for the month.

23.6b.i Obtain supporting schedules from USAC for the activity that supports 1-5 above. Compare the totals on the supporting schedules to the entries on the rollforward schedule.

23.6b.ii Trace the ending outstanding obligations balance from the rollforward schedule to the budgetary accounts in the general ledger. Include any exceptions in the report.

23.6b.iii Observe that the ending outstanding obligations balance on the rollforward schedule is compared against the SLD database and that any resulting variance is explained.

Include the amount of any remaining unexplained variance at October 30, 2020 in the report and confirm that no remaining unexplained difference existed at the end of the quarter (December 31, 2020).

23.6c Obtain an obligations file as of October 31, 2020. To obtain the total outstanding commitment amount, use the following calculation: committed minus net authorizations minus expired to equal outstanding (all contained within the file). Trace the total outstanding amount as of October 31, 2020 to the SLD Database Balance on the roll forward schedule. Obtain reconciliation and identify any differences and explanations from USAC management.

23.6d From the obligations file obtained in procedure 21.6c above, randomly select 45 FRNs for testing (including FRNs with zero balances) from funding years 2013 through 2020. For the procedures below, include any differences in the report.

23.6d.i Compare the outstanding amount from the obligations file to the Oracle DataInsight database amount. (Note: Data to be tested is as of October 31, 2020. However, the Oracle DataInsight database displays current data. Therefore, there may be valid differences attributable to transactions processed after October 31, 2020). If there are differences, inquire of USAC management for an explanation.

23.6d.ii Trace the commitment date and amount to the Fund Commitment Display Report. If it is a Funding Year 1998, 1999, or 2000 commitment, observe that the commitment date is within seven business days of the date in the Funding Commitment Display Report.

23.6d.iii Trace the gross disbursed amount to the Payment History Report (which could be a check or ACH paid by SPIN) by FRN.

23.6d.iv Observe the invoice deadline date by the latest of the following three criteria (Note: Standard deadlines were not formalized for FRNs issued in earlier funding years, e.g. 1998, 1999):

1. Calculate 120 days after 6/30 for recurring services or 9/30 for non-recurring service at the end of the funding year as included in the FRN query.
2. 120 days after the Service Notification Letter date.
3. If date on obligations file does not agree to criteria 1 or 2 above, inquire of USAC whether the FRN received an invoice extension.

23.6d.v Of the three criteria above, if latest invoice deadline date is prior to October 31, 2020, any remaining balance on FRN (i.e., commitment minus disbursement) is considered

expired (commitment not outstanding). Observe whether any expired commitments are still listed as outstanding.

23.6d.vi For each FRN selected, recalculate the outstanding commitment amount (commitment minus disbursements minus expired equals outstanding commitments). Compare outstanding amount to the obligations file. Obtain reconciliation of any differences resulting from errors and explanations from USAC management.

23.6d.vi.1 Provide the sample of 45 FRNs to USAC IT.

23.6d.vi.1a Obtain a listing of disbursements processed through the Disbursement Aggregate System (DAS) for selected FRNs.

23.6d.vi.1b Compare the total disbursements made as of October 31, 2020, to the disbursement included in the Payment History as of October 31, 2020. Obtain reconciliation of any differences resulting from errors and explanations from USAC management.

23.6e From the obligations file obtained in Procedure 21.6.c above, extract the 10 largest outstanding FRNs from the last five funding years. Then randomly select an additional sample of 45 FRNs over \$200, outstanding as of October 31, 2020, from the last five funding years and confirm the 55 outstanding balances with the service provider and the applicant using positive confirmations. If an FRN selected is related to a State Replacement Contract and a service provider has not been assigned, select another FRN for confirmation purposes. List the dollar amounts of the confirmations in the exhibit of the report.

With the help of USAC, prepare a confirmation letter and contact the service provider and applicant. Fax or e-mail the letter to the service provider and applicant for completion. Obtain a signed fax or e-mail from both the applicant and the service provider confirming the outstanding commitment amount for the selected FRN. Obtain a reconciliation for any confirmations identifying differences. For any un-reconcilable differences, obtain an explanation from USAC management. Note, past experience has identified that approximately 10-15 confirmations received from the service provider or applicant do not match. This is because the SP or APP may be using older disbursement data and USAC's records show that more funds were disbursed. As long as the reconciliation can be performed there is no need to reach back out to the SP or APP, nor should it be identified as a finding. Advise USAC if communications become unsuccessful after two attempts via telephone, fax, or e-mail and include in the report unsuccessful attempts. Consider the applicants or service providers as non-responsive one week after the third contact attempt if no response has been received.