Board of Directors

Supply Chain Audit Reports Briefing Book

Tuesday, July 25, 2023

Available For Public Use

Universal Service Administrative Company Offices

700 12th Street, N.W., Suite 900

Washington, DC 20005

Summary of the Supply Chain Audit Report Released: April 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Spruce Knob Seneca Rocks Telephone, Inc. **Attachment A**	0	• Not applicable.	$733,702	$0	$0	N/A
Total	**0**		**$733,702**	**$0**	**$0**	

Attachment A

SC2022BE001

Available For Public Use

Spruce Knob Seneca Rocks Telephone, Inc. Audit ID: SC2022BE001 (SAC: 200257)

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from July 1, 2020 to December 31, 2020

Prepared for: Universal Service Administrative Company

As of Date: March 15, 2023

KPMG LLP
8350 Broad Street Suite 900
McLean, VA 22102

TABLE OF CONTENTS

KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

March 15, 2023

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the Supply Chain performance audit objective relative to Spruce Knob Seneca Rocks Telephone, Inc. ("Universal Service Fund ("USF") Recipient" or "Spruce Knob Seneca"), Study Area Code ("SAC") 200257 and Service Provider Identification Number ("SPIN") 143001424, for disbursements of $733,702 made from the Universal Service Fund's High Cost Program from July 1, 2020, to December 31, 2020. Our work was performed from July 1, 2022, to March 15, 2023, and our results are as of March 15, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements, or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objective of this performance audit was to evaluate the USF Recipient's compliance with the Federal Communications Commission's ("FCC") *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9 (collectively, the "FCC Rules") relative to disbursements of $733,702 made from the High Cost Program from July 1, 2020 to December 31, 2020.

Compliance with FCC Rules is the responsibility of the USF Recipient who is required to affirmatively demonstrate compliance with the applicable rules. Our responsibility is to evaluate the USF Recipient's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG did not identify any audit findings as a result of the work performed.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the Universal Service Administrative Company, the USF Recipient, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties. This report is not confidential and may be released by USAC and the FCC.

Sincerely,

KPMG LLP

cc: Radha Sekar, USAC Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division

List of Acronyms

Acronym	Definition
ACAM_II	Alternative Connect America Cost Model II
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
C.F.R.	Code of Federal Regulations
COE	Central Office Equipment
Covered Companies	Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries were designated as a threat to national security by the FCC on June 30, 2020.
CPRs	Continuing Property Records
FCC	Federal Communications Commission
Form 481	Carrier Annual Reporting Data Collection Form
G/L	General Ledger
HCL	High Cost Loop
SAC	Study Area Code
TB	Trial Balance
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

KPMG’s performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation operating under the FCC's direction pursuant to 47 C.F.R. Part 54. USAC is the permanent administrator of the Universal Service Fund ("USF") which includes four support mechanisms: High Cost, Lifeline, Rural Health Care, and E-Rate. With these four support mechanisms, the FCC strives to ensure that people in the United States have affordable access to advanced telecommunications services.

On November 22, 2019, the FCC adopted the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, which adopted a rule, codified at 47 C.F.R. § 54.9, prohibiting the use of USF support to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company found to pose a national security threat to the integrity of communications networks or the communications supply chain[1]. On June 30, 2020, the FCC's Public Safety and Homeland Security Bureau issued final designations of Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries, as companies that pose such threats ("Covered Companies")[2], and thus, the prohibition against the use of USF support applies to equipment and services produced or provided by these Covered Companies as of June 30, 2020.

USAC engaged KPMG to conduct a performance audit relating to the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $733,702 made from the High Cost Program from July 1, 2020 to December 31, 2020.

USF Recipient Overview

Spruce Knob Seneca Rocks Telephone, Inc. (SAC: 200257 and SPIN: 143001424), the subject of this performance audit, is located in Riverton, West Virginia. Spruce Knob Seneca provides telephone, internet and television services. It is a not-for-profit telephone cooperative, and it is not affiliated with another company.

In the table below, we show the High Cost support disbursed by USAC to the USF Recipient during the six-month period from July 1, 2020 to December 31, 2020, by High Cost fund type:

[1] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs*, WC Docket No. 18-89, Report and Order, Further Notice of Proposed Rulemaking, and Order, 34 FCC Rcd 11423 (2019); 47 C.F.R. Section 54.9.

[2] *Public Safety and Homeland Security Bureau Issues Final Designations of Huawei Technologies Company and ZTE Corporation as Companies Posing a National Security Threat to the Integrity of Communications Networks and the Communications Supply Chain. Pursuant to 47 CFR § 54.9. PS Docket Nos. 19-351, 19-352*, Public Notice, 35 FCC Rcd 6602 (8).

Fund Type	Amount
ACAM II	$627,106[3]
CAF BLS	$(10,584)[4]
HCL	$(126)[3]
CAF ICC	$117,306
TOTAL	**$733,702**

Source: USAC

The USF Recipient received High Cost support during the six-month period from July 1, 2020 to December 31, 2020, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

HCL and CAF ICC funds, disbursed in 2020, were based on forms submitted in 2019 that encompass 2018 data (line count data and totals of specific pre-designated G/L Accounts including all asset accounts that roll into the Telecom Plant in Service as well as specific deferred liabilities and operating expenses subject to the allocation between regulated and non-regulated activities). ACAM II and CAF BLS funds, disbursed in 2020, were based on the FCC support authorization public notice and subject to deployment obligations.

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $733,702 made from the High Cost Program during the six-month period from July 1, 2020 to December 31, 2020.

SCOPE

The scope of this performance audit included, but was not limited to, review of the Continuing Property Records ("CPRs") and G/L details; review of internal network diagrams and internal scan or monitoring tool reports, if available; review of vendor policies, approved vendors, and network vendor transactions; and physical inspection to determine whether USF funds were used for equipment or services produced or provided by the Covered Companies. The scope of our work relates to disbursements made from the High Cost Program from July 1, 2020 to December 31, 2020.

Our performance audit includes, but is not limited to, the following focus areas:

1. Annual Supply Chain Certification
2. Asset Records
3. Network Architecture
4. Vendor Transactions

[3] Based on the procedures performed, KPMG verified that the ACAM II disbursements were not used to 'purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by" Covered Companies as of December 31, 2020. Because ACAM II has a future deployment obligation, Spruce Knob Seneca may still expend these ACAM II disbursements in periods subsequent to our performance audit period.
[4] These negative amounts represent prior year funding true-ups that resulted from the conversion from legacy funds to modernized funds.

PROCEDURES

1. **Annual Supply Chain Certification**

   KPMG obtained the FCC Form 481 related to the High Cost disbursement period under review, and verified that the USF Recipient certified that "no universal service support has been or will be used to purchase, obtain, maintain, improve, modify or otherwise support any equipment or services produced or provided by any company designated by Federal Communications Commission as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations."

2. **Asset Records**

   KPMG obtained the Central Office Equipment CPRs and reconciled the amounts to the Trial Balance or General Ledger for accounts 2210 (Central Office – Switching) and 2230 (Central Office – Transmission) to ensure all telecommunications network equipment were accounted for in Spruce Knob Seneca's records. KPMG observed and verified that no asset additions had been made to the COE CPRs since 2014 and therefore confirmed that the in-scope High Cost disbursements received from July 1, 2020 to December 31,2020 were not used as of December 31, 2020 to purchase COE equipment that was produced or provided by a Covered Company. KPMG reviewed and performed a keyword search of the COE CPRs to obtain reasonable assurance that no links to the Covered Companies could be identified. KPMG also reviewed the G/L account Telecom Plant Under Construction to verify that any work in progress (not yet added to the CPRs) could not be traced to the Covered Companies.

3. **Network Architecture**

   KPMG reviewed network diagrams and conducted a virtual inspection of the Spruce Knob Seneca network to validate the physical existence of a sample of 25 COE assets and to confirm that the manufacturer and model in the COE CPR details provided matched the equipment in service. We reviewed the COE CPR details and physical COE assets to verify that key indicators such as asset manufacturer, vendor and model could not be traced to Covered Companies.

4. **Vendor Transactions**

   KPMG obtained a list of approved Vendors and Vendor transaction G/L details. KPMG used non-statistical sampling to select a sample of ten network expense samples from G/L expense accounts 6210 (Switching Expense) and 6230 (Transmission Expense). This represented one sample for each Vendor identified. We obtained and reviewed underlying invoices to verify the transactions sampled did not include equipment or services produced or provided by Covered Companies. KPMG also performed a keyword search in the G/L network expense accounts noted above to obtain reasonable assurance that no links to the Covered Companies could be identified.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

KPMG's performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

KPMG's evaluation of the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relevant to the disbursements made from the High Cost Program from December 31, 2020, identified no audit findings.

** This concludes the audit report.**

Summary of the Supply Chain Audit Reports Released: May 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Wood County Telephone Company **Attachment B**	0	• Not applicable	$5,422,410	$0	$0	N/A
Valliant Telephone Company **Attachment C**	0	• Not applicable.	$801,592	$0	$0	N/A
Total	**0**		**$6,224,002**	**$0**	**$0**	

Attachment B

SC2022BE003

Wood County Telephone Company
Audit ID: SC2022BE003
(SAC: 330974)

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from July 1, 2020 to December 31, 2020; E-Rate disbursements made from July 1, 2020 to June 30, 2021; and Rural Health Care disbursements made from July 1, 2020 to June 30, 2021

Prepared for: Universal Service Administrative Company

As of Date: April 17, 2023

KPMG LLP
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TABLE OF CONTENTS

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EXECUTIVE SUMMARY

April 17, 2023

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the Supply Chain performance audit objective relative to Wood County Telephone Company (Universal Service Fund ("USF") Recipient or "Wood County"), Study Area Code ("SAC") 330974 and Service Provider Identification Number ("SPIN") 143001855, for disbursements of $4,986,875 made from the USF's High Cost Program from July 1, 2020, to December 31, 2020; disbursements of $133,833 made from the USF's E-Rate Program from July 1, 2020 to June 30, 2021; and disbursements of $301,702 made from the USF's Rural Health Care ("RHC") Program from July 1, 2020 to June 30, 2021. Our work was performed from June 30, 2022, to April 17, 2023 and our results are as of April 17, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements, or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objective of this performance audit was to evaluate the USF Recipient's compliance with the Federal Communications Commission's ("FCC") *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9 (collectively, the "FCC Rules") relative to disbursements of $4,986,875 made from the High Cost Program from July 1, 2020 to December 31, 2020, disbursements of $133,833 made from the E-Rate Program from July 1, 2020 to June 30, 2021 and disbursements of $301,702 made from the RHC Program from July 1, 2020 to June 30, 2021.

Compliance with FCC Rules is the responsibility of the USF Recipient who is required to affirmatively demonstrate compliance with the applicable rules. Our responsibility is to evaluate the USF Recipient's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG did not identify any audit findings as a result of the work performed.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the Universal Service Administrative Company, the USF Recipient, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties. This report is not confidential and may be released by USAC and the FCC.

Sincerely,

KPMG LLP

cc: Radha Sekar, USAC Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division
Craig Davis, USAC Vice President, E- Rate Division
Mark Sweeney, USAC Vice President, Rural Health Care Division

List of Acronyms

Acronym	Definition
ACAM_II	Alternative Connect America Cost Model II
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
BMIC	Basic Maintenance of Internal Connections
CAFII AUC	Connect America Fund Phase II Auction
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
C.F.R.	Code of Federal Regulations
COE	Central Office Equipment
Covered Companies	Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries were designated as a threat to national security by the FCC on June 30, 2020.
CPRs	Continuing Property Records
FCC	Federal Communications Commission
FCC Form 481	Carrier Annual Reporting Data Collection Form
FCC Form 463	Rural Health Care Invoice to USAC for reimbursement
FCC Form 473	Service Provider Annual Certification Form
FRN	Funding Request Number
G/L	General Ledger
HCL	High Cost Loop
MIBS	Managed Internal Broadband Services
RHC	Rural Health Care
SAC	Study Area Code
SPI	Service Provider Invoice form submitted for E-Rate reimbursement
TB	Trial Balance
TPUC	Telecommunications Plant Under Construction
USAC	Universal Service Administrative Company
USF	Universal Service Fund
Wood County	Wood County Telephone Company

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation operating under the FCC's direction pursuant to 47 C.F.R. Part 54. USAC is the permanent administrator of the Universal Service Fund which includes four support mechanisms: High Cost, Lifeline, RHC, and E-Rate. With these four support mechanisms, the FCC strives to ensure that people in the United States have affordable access to advanced telecommunications services.

On November 22, 2019, the FCC adopted the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, which adopted a rule, codified at 47 C.F.R. § 54.9, prohibiting the use of USF support to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company found to pose a national security threat to the integrity of communications networks or the communications supply chain[1]. On June 30, 2020, the FCC's Public Safety and Homeland Security Bureau issued final designations of Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries, as companies that pose such threats ("Covered Companies")[2], and thus, the prohibition against the use of USF support applies to equipment and services produced or provided by these Covered Companies as of June 30, 2020.

USAC engaged KPMG to conduct a performance audit relating to the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $4,986,875 made from the High Cost Program from July 1, 2020 to December 31, 2020; disbursements of $133,833 made from the E-Rate Program from July 1, 2020 to June 30, 2021; and disbursements of $301,702 made from the RHC Program from July 1, 2020 to June 30, 2021.

USF Recipient Overview

Wood County (SPIN: 143001855), the subject of this performance audit, is located in Wisconsin Rapids, Wisconsin and does business as Solarus. The carrier is a stand-alone entity with two wholly-owned subsidiaries, Manawa Telephone Company and Central Wisconsin Communications. Wood County, along with its wholly-owned subsidiary, Manawa Telephone Company, provides telephone, internet, and cable television services. Additionally, Wood County provides technical assistance services, wholesale long-distance telephone service, hosted voice service and home automation through its wholly-owned subsidiary, Central Wisconsin Communications.

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[1] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs,* WC Docket No. 18-89, Report and Order, Further Notice of Proposed Rulemaking, and Order, 34 FCC Rcd 11423 (2019); 47 C.F.R. Section 54.9.

[2] *Public Safety and Homeland Security Bureau Issues Final Designations of Huawei Technologies Company and ZTE Corporation as Companies Posing a National Security Threat to the Integrity of Communications Networks and the Communications Supply Chain. PS Docket Nos. 19-351, 19-352. DA-20-689A1_Rcd.*

High Cost

In the table below, we show the High Cost support disbursed by USAC to the USF Recipient during the six-month period from July 1, 2020 to December 31, 2020, by High Cost fund type:

High Cost Fund Type[3]	Amount
CAFII AUC	$4,096
CAF BLS	$3,990,330
HCL	$363,775
CAF ICC	$628,674
TOTAL	**$4,986,875**

Source: USAC

The USF Recipient received High Cost support during the six-month period from July 1, 2020 to December 31, 2020, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

HCL, CAF ICC and CAF BLS funds, disbursed in 2020, were based on forms submitted in 2019 that encompass 2018 data (line count data and totals of specific pre-designated G/L Accounts including all asset accounts that roll into the Telecom Plant in Service as well as specific deferred liabilities and operating expenses subject to the allocation between regulated and non-regulated activities). CAFII AUC and CAF BLS funds, disbursed in 2020, were based on the FCC support authorization public notice and subject to deployment obligations.

E-Rate

In the table below, we show the E-Rate support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2020 to June 30, 2021, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	$127,107
Category Two	Managed Internal Broadband Services (MIBS)	$6,726
	TOTAL	**$133,833**

Source: USAC

E-Rate Category One includes the services needed to support broadband connectivity to schools and libraries. Data transmission and/or Internet access services are eligible in Category One.[4]

E-Rate Category Two includes the internal connections needed for broadband connectivity within schools and libraries. Broadband Internal Connections, MIBS and BMIC are eligible in Category Two.[5]

[3] The total HC disbursement amount was allocated to two different SACs (330974 & 339059). SAC 330974 received CAF ICC, CAF BLS and HCL and SAC 339059 received CAFII AUC disbursements.
[4] *Funding Year 2020 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).
[5] *Funding Year 2020 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

RHC

In the table below, we show the RHC support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2020 to June 30, 2021, by RHC Program Fund:

RHC Program Fund	Amount
Healthcare Connect Fund	$301,702
TOTAL	**$301,702**

Source: USAC

The RHC Program funds two types of services: Voice and Data services via the Telecommunications Program and Broadband services via the Healthcare Connect Fund.

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $4,986,875 made from the High Cost Program from July 1, 2020 to December 31, 2020; disbursements of $133,833 made from the E-Rate Program from July 1, 2020 to June 30, 2021; and disbursements of $301,702 made from the RHC Program from July 1, 2020 to June 30, 2021.

SCOPE

The scope of this performance audit included, but was not limited to, review of the Continuing Property Records ("CPRs") and G/L details; review of internal network diagrams and internal scan outputs, if available; review of vendor policies, approved vendors, network vendor transactions and invoices; and physical inspection to determine whether USF funds were used for equipment or services produced or provided by the Covered Companies. The scope of our work relates to disbursements made from the High Cost Program from July 1, 2020 to December 31, 2020; disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021; and disbursements made from the RHC Program from July 1, 2020 to June 30, 2021.

Our performance audit includes, but is not limited to, the following focus areas:

1. Annual Supply Chain Certification
2. Asset Records
3. Network Architecture
4. Vendor Transactions

PROCEDURES

1. **Annual Supply Chain Certification**

   KPMG obtained the FCC Form 481, FCC Form 463 and FCC Form 473 filed in respect of 2020 and verified that the USF Recipient certified that "no universal service support has been or will be used to purchase, obtain, maintain, improve, modify or otherwise support any equipment or services produced or provided by any company designated by Federal Communications Commission as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations."

2. Asset Records

High Cost

KPMG obtained the Central Office Equipment CPRs and reconciled the amounts to the Trial Balance or G/L for accounts 2210 (Central Office – Switching) and 2230 (Central Office – Transmission) to ensure all telecommunications network equipment were accounted for in the carrier's records. KPMG performed a key word search of the COE CPRs to obtain reasonable assurance that no links to the Covered Companies could be identified. KPMG selected a non-statistical sample of 29 assets and requested supporting invoices to verify that the equipment detail in the invoices matched the CPR details and that no equipment or services were produced or provided by the Covered Companies. KPMG also searched the G/L for the Telecom Plant Under Construction account which would have any work-in-progress items that had yet been added to the CPRs. KPMG noted Wood County did not report any open balance for TPUC in the 2020 G/L.

E-Rate

KPMG selected seven out of seven Funding Request Numbers for testing. This represents 100% coverage of the disbursed dollars and also represents each type of service that was funded for our audit period.

For the six selected FRNs with Category One services, KPMG obtained the underlying Wood County bills that support the BEAR/SPI forms that were submitted to USAC for reimbursement. KPMG reviewed the bills to determine if any equipment was included as part of the Category One services. KPMG also inquired of Wood County to understand if any equipment was provisioned to the Beneficiary as part of this service. KPMG noted no equipment was provisioned to the Beneficiary as part of the Category One service, and Wood County confirmed any equipment used to provide the service was included in the network documentation provided. KPMG reviewed the Wood County network, which was used to provide the Category One service, as described in the Network Architecture section below.

KPMG noted one of the seven selected FRNs had Category Two services. KPMG obtained the underlying Wood County bills for this FRN that support the BEAR/SPI forms that were submitted to USAC for reimbursement. KPMG reviewed the bills to determine if any equipment and services were included to verify nothing could be traced to the Covered Companies. KPMG researched the model number for each equipment item that was listed in the Managed Internal Broadband Service bills to verify the item was not manufactured by a Covered Company. Wood County confirmed any equipment used to provide the service was included in the network documentation provided. KPMG reviewed the Wood County network, which was used to provide the Category Two MIBS, as described in the Network Architecture section below.

RHC

KPMG selected one out of one FRN for testing, representing 100% coverage of the disbursed dollars. KPMG obtained the underlying Wood County bills that support the FCC Form 463 that were submitted to USAC for reimbursement. KPMG reviewed the bills for this FRN to determine if any equipment was included as part of the service provided. KPMG also inquired of Wood County to understand if any equipment was provisioned to the Beneficiary as part of this service. KPMG noted no equipment was provisioned to the Beneficiary as part of the broadband service provided, and Wood County confirmed any equipment used to provide the service was included in the network documentation provided. KPMG reviewed the Wood

County network, which was used to provide the broadband service, as described in the Network Architecture section below.

3. **Network Architecture**

KPMG reviewed network diagrams and conducted a physical inspection of Wood County's network to validate the physical existence of COE assets at 2 central offices, including the primary central office for network and to confirm that the manufacturer and model in the COE CPR details provided matched the equipment in service. We reviewed the COE CPR details and physical COE assets to verify that key indicators such as asset manufacturer, vendor and model could not be traced to Covered Companies. In addition to the COE CPRs, KPMG also obtained a network asset listing from Wood County. KPMG noted this listing was extracted from a network monitoring tool. KPMG performed a key word search of this network asset listing as well to obtain reasonable assurance that no links to Covered Companies could be identified.

4. **Vendor Transactions**

KPMG obtained a list of approved Vendors and Vendor transaction G/L details. KPMG researched the Vendors to verify that none could be linked to the Covered Companies. To further verify that no other Vendors were used to provide services to the network, KPMG used non-statistical sampling to select a sample of 15 transactions from G/L network asset accounts 2210 (Central Office – Switching) and 2230 (Central Office – Transmission) and network expense accounts 6210 (Switching Expense) and 6230 (Transmission Expense). We obtained and reviewed underlying invoices to verify that the transactions sampled were not USF funded network equipment or services that could be traced to Covered Companies. KPMG also performed a keyword search in the G/L accounts noted above to obtain reasonable assurance that no links to the Covered Companies could be identified.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

KPMG's performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

KPMG's evaluation of the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relevant to the disbursements made from the High Cost Program from July 1, 2020 to December 31, 2020; the disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021 and the disbursements made from the RHC Program from July 1, 2020 to June 30, 2021; identified no audit findings.

** This concludes the audit report.**

Attachment B

SC2022BE006

Available For Public Use

Valliant Telephone Company
Audit ID: SC2022BE006
(SAC: 432032)

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from July 1, 2020 to December 31, 2020; E-Rate disbursements made from July 1, 2020 to June 30, 2021

Prepared for: Universal Service Administrative Company

As of Date: April 14, 2023

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McLean, VA 22102

EXECUTIVE SUMMARY

April 14, 2023

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the Supply Chain performance audit objective relative to Valliant Telephone Company ("Valliant Tel" or "Universal Service Fund ("USF") Recipient"), Study Area Code ("SAC") 432032 and Service Provider Identification Number ("SPIN") 143002402, for disbursements of $764,201 made from the USF's High Cost Program from July 1, 2020 to December 31, 2020; and disbursements of $37,391 made from the USF's E-Rate Program from July 1, 2020 to June 30, 2021. Our work was performed from June 30, 2022 to April 14, 2023 and our results are as of April 14, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements, or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objective of this performance audit was to evaluate the USF Recipient's compliance with the Federal Communications Commission's ("FCC") *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9 (collectively, the "FCC Rules") relative to disbursements of $764,201 made from the High Cost Program from July 1, 2020 to December 31, 2020, and disbursements of $37,391 made from the E-Rate Program from July 1, 2020 to June 30, 2021.

Compliance with FCC Rules is the responsibility of the USF Recipient who is required to affirmatively demonstrate compliance with the applicable rules. Our responsibility is to evaluate the USF Recipient's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG did not identify any audit findings as a result of the work performed.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the Universal Service Administrative Company, the USF Recipient, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties. This report is not confidential and may be released by USAC and the FCC.

Sincerely,

KPMG LLP

cc: Radha Sekar, USAC Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division
Craig Davis, USAC Vice President, E- Rate Division

List of Acronyms

Acronym	Definition
ACAM	Alternative Connect America Cost Model
BMIC	Basic Maintenance of Internal Connections
CAF ICC	Connect America Fund Intercarrier Compensation
C.F.R.	Code of Federal Regulations
COE	Central Office Equipment
Covered Companies	Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries were designated as a threat to national security by the FCC on June 30, 2020.
CPR	Continuing Property Records
FCC	Federal Communications Commission
FCC Form 481	Carrier Annual Reporting Data Collection Form
FCC Form 473	Service Provider Annual Certification Form
FRN	Funding Request Number
G/L	General Ledger
HCL	High Cost Loop
SAC	Study Area Code
SPI	Service Provider Invoice form submitted for E-Rate reimbursement
TB	Trial Balance
USAC	Universal Service Administrative Company
USF	Universal Service Fund
Valliant Tel.	Valliant Telephone Company

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation operating under the FCC's direction pursuant to 47 C.F.R. Part 54. USAC is the permanent administrator of the Universal Service Fund which includes four support mechanisms: High Cost, Lifeline, Rural Health Care, and E-Rate. With these four support mechanisms, the FCC strives to ensure that people in the United States have reasonable and affordable access to advanced telecommunications services.

On November 22, 2019, the FCC released the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, which adopted a rule, codified at 47 C.F.R. § 54.9, prohibiting the use of USF support to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company found to pose a national security threat to the integrity of communications networks or the communications supply chain[1]. On June 30, 2020, the FCC's Public Safety and Homeland Security Bureau issued final designations of Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries, as companies that pose such threats ("Covered Companies")[2], and thus, the prohibition against the use of USF support applies to equipment and services produced or provided by these Covered Companies as of June 30, 2020.

USAC engaged KPMG to conduct a performance audit relating to the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $764,201 made from the High Cost Program from July 1, 2020 to December 31, 2020, and disbursements of $37,391 made from the E-Rate Program from July 1, 2020 to June 30, 2021.

USF Recipient Overview

Valliant Telephone Company (SAC: 432032 and SPIN: 143002402), the subject of this performance audit, is located in Valliant, Oklahoma. Valliant Tel. provides telephone and internet services. They have an affiliated investment organization called Cross-Valliant Cellular Partnership.

High Cost

In the table below, we show the High Cost support disbursed by USAC to the USF Recipient from July 1, 2020 to December 31, 2020, by High Cost fund type:

[1] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs*, WC Docket No. 18-89, Report and Order, Further Notice of Proposed Rulemaking, and Order, 34 FCC Rcd 11423 (2019); 47 C.F.R. Section 54.9.

[2] *Public Safety and Homeland Security Bureau Issues Final Designations of Huawei Technologies Company and ZTE Corporation as Companies Posing a National Security Threat to the Integrity of Communications Networks and the Communications Supply Chain. Pursuant to 47 CFR § 54.9. PS Docket Nos. 19-351, 19-352*, Public Notice, 35 FCC Rcd 6602 (8).

High Cost Fund Type	Amount
ACAM	$660,119[3]
ICC	$104,082
TOTAL	**$764,201**

Source: USAC

The USF Recipient received High Cost support during the six-month period from July 1, 2020 to December 31, 2020, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

CAF ICC funds, disbursed in 2020, were based on forms submitted in 2019 that encompass 2018 data (line count data and totals of specific pre-designated G/L Accounts including all asset accounts that roll into the Telecom Plant in Service as well as specific deferred liabilities and operating expenses subject to the allocation between regulated and non-regulated activities). ACAM funds, disbursed in 2020, were based on the FCC support authorization public notice and subject to deployment obligations.

E-Rate

In the table below, we show the E-Rate support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2020 to June 30, 2021, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	$37,391
	TOTAL	**$37,391**

Source: USAC

E-Rate Category One includes the services needed to support broadband connectivity to schools and libraries. Data transmission and/or Internet access services are eligible in Category One.[4]

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $764,201 made from the High Cost Program from July 1, 2020 to December 31, 2020; and disbursements of $37,391 made from the E-Rate Program from July 1, 2020 to June 30, 2021.

SCOPE

The scope of this performance audit included, but was not limited to, review of the Continuing Property Records and G/L details; review of internal network diagrams and internal scan outputs, if available; review of vendor policies, approved vendors, network vendor transactions and invoices; and virtual inspection to determine whether USF funds were used for equipment or services produced or provided by the Covered Companies. The scope of our work relates to

[3] Based on the procedures performed, KPMG verified that the ACAM disbursements were not used as of December 31, 2020 to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by Covered Companies. Because ACAM II has a future deployment obligation, Valliant Tel. may still expend these ACAM disbursements in periods subsequent to our performance audit period.

[4] *Funding Year 2020 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

disbursements made from the High Cost Program from July 1, 2020 to December 31, 2020; and disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021.

Our performance audit includes, but is not limited to, the following focus areas:

1. Annual Supply Chain Certification
2. Asset Records
3. Network Architecture
4. Vendor Transactions

PROCEDURES

1. Annual Supply Chain Certification

KPMG obtained the FCC Form 481 and FCC Form 473 related to the High Cost and E-rate disbursement periods under review, and verified that the USF Recipient certified that "no universal service support has been or will be used to purchase, obtain, maintain, improve, modify or otherwise support any equipment or services produced or provided by any company designated by the Federal Communications Commission as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations."

2. Asset Records

High Cost

KPMG obtained the Central Office Equipment CPRs and reconciled the amounts to the Trial Balance for accounts 2210 (Central Office – Switching) and 2230 (Central Office – Transmission) to ensure all telecommunications network equipment were accounted for in the carrier's records. KPMG performed a key word search of the COE CPRs to obtain reasonable assurance that no links to the Covered Companies could be identified. KPMG selected a non-statistical sample of 15 assets and requested supporting invoices to verify that the equipment detail in the invoices matched the CPR details and that no equipment or services were produced or provided by the Covered Companies.

E-Rate

KPMG selected two out of two Funding Request Numbers for testing. This represents 100% coverage of the disbursed dollars and also represents each type of service that was funded for our audit period.

For the selected FRNs with Category One services, KPMG obtained the underlying Valliant Tel. bills that support the SPI forms that were submitted to USAC for reimbursement. KPMG reviewed the details to determine if any equipment was included as part of the Category One services. KPMG also inquired of Valliant Tel. to understand if any equipment was provisioned to the E-Rate Beneficiaries as part of this service. KPMG noted no equipment was provisioned to the Beneficiaries as part of the Category One service, and Valliant Tel. confirmed any internal equipment used to provide the service was included in the network documentation provided. KPMG reviewed the Valliant Tel. network, which was used to provide the E-Rate Category One broadband services, as described in the Network Architecture section below.

3. **Network Architecture**

   KPMG reviewed network diagrams and conducted a virtual inspection of the Valliant Tel. network to validate the physical existence of a sample of five COE assets and to confirm that the manufacturer and model in the CPR details provided matched the equipment in service. We reviewed the COE CPR details and COE assets to verify that key indicators such as asset manufacturer, vendor and model could not be traced to Covered Companies. KPMG also reviewed the Telecom Plant Under Construction account to verify that any work in progress (not yet added to the CPRs) could not be traced to the Covered Companies.

4. **Vendor Transactions**

   KPMG obtained a list of approved Vendors and Vendor transaction G/L details. KPMG researched the Vendors to verify that none were linked to the Covered Companies. To further verify that no other Vendors were used to provide services to the network, KPMG selected a non-statistical sample of 14 transactions from G/L network accounts 2212 (Digital Electronic Switching), 2232 (Circuit Equipment), 6210 (Switching Expense), and 6230 (Transmission Expense). We obtained and reviewed underlying invoices to verify that the transactions sampled were not USF funded network equipment or services that could be traced to Covered Companies. KPMG also performed a keyword search in the G/L accounts noted above to obtain reasonable assurance that no links to the Covered Companies could be identified.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

KPMG's performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

KPMG's evaluation of the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relevant to the disbursements made from the High Cost Program from July 1, 2020 to December 31, 2020; and the disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021; identified no audit findings.

** This concludes the audit report.**

Summary of the Supply Chain Audit Reports Released: June 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Phillips County Telephone Company dba PC Telcom **Attachment D**	0	• Not applicable	$943,727	$0	$0	N/A
Scott Rice Integra **Attachment E**	0	• Not applicable.	$815,886	$0	$0	N/A
Heartland Technology Group, Inc. **Attachment F**	0	• Not applicable.	$7,088,286	$0	$0	N/A
Progressive Communications, Inc. **Attachment G**	0	• Not applicable.	$385,776	$0	$0	N/A
Total	**0**		**$9,233,675**	**$0**	**$0**	

Attachment D

SC2022BE002

Available For Public Use

Phillips County Telephone Company dba PC Telcom Audit ID: SC2022BE002 SAC: 462197

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from July 1, 2020 to December 31, 2020; E-Rate disbursements made from July 1, 2020 to June 30, 2021; and Rural Health Care disbursements made from July 1, 2020 to June 30, 2021

Prepared for: Universal Service Administrative Company

As of Date: May 23, 2023

KPMG LLP
8350 Broad Street
Suite 900
McLean, VA 22102

TABLE OF CONTENTS

KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

May 23, 2023

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the Supply Chain performance audit objective relative to Phillips County Telephone Company dba PC Telcom ("Universal Service Fund ("USF") Recipient"), Study Area Code ("SAC") 462197 and Service Provider Identification Number ("SPIN") 143002497, for disbursements of $913,354 made from the USF's High Cost Program from July 1, 2020 to December 31, 2020; disbursements of $11,604 made from the USF's E-Rate Program from July 1, 2020 to June 30, 2021; and disbursements of $18,769 made from the USF's Rural Health Care Program ("RHC") from July 1, 2020 to June 30, 2021. Our work was performed from June 30, 2022, to May 23, 2023 and our results are as of May 23, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements, or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objective of this performance audit was to evaluate the USF Recipient's compliance with the Federal Communications Commission's ("FCC") *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9 (collectively, the "FCC Rules") relative to disbursements of $913,354 made from the High Cost Program from July 1, 2020 to December 31, 2020; disbursements of $11,604 made from the E-Rate Program from July 1, 2020 to June 30, 2021; and disbursements of $18,769 made from the RHC Program from July 1, 2020 to June 30, 2021.

Compliance with FCC Rules is the responsibility of the USF Recipient who is required to affirmatively demonstrate compliance with the applicable rules. Our responsibility is to evaluate the USF Recipient's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG did not identify any audit findings as a result of the work performed.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the Universal Service Administrative Company, the USF Recipient, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties. This report is not confidential and may be released by USAC and the FCC.

Sincerely,

KPMG LLP

cc: Radha Sekar, USAC Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division
Craig Davis, USAC Vice President, E- Rate Division
Mark Sweeney, USAC Vice President, Rural Health Care Division

List of Acronyms

Acronym	Definition
ACAM_II	Alternative Connect America Cost Model II
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
BMIC	Basic Maintenance of Internal Connections
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
C.F.R.	Code of Federal Regulations
COE	Central Office Equipment
Covered Companies	Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries were designated as a threat to national security by the FCC on June 30, 2020.
CPR	Continuing Property Records
FCC	Federal Communications Commission
FCC Form 481	Carrier Annual Reporting Data Collection Form
FCC Form 463	Rural Health Care Invoice to USAC for reimbursement
FCC Form 473	Service Provider Annual Certification Form
G/L	General Ledger
HCL	High Cost Loop
MIBS	Managed Internal Broadband Services
RHC	Rural Health Care
SPI	Service Provider Invoice form submitted for E-Rate reimbursement
TB	Trial Balance
TPUC	Telecommunications Plant Under Construction
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation operating under the FCC's direction pursuant to 47 C.F.R. Part 54. USAC is the permanent administrator of the Universal Service Fund which includes four support mechanisms: High Cost, Lifeline, Rural Health Care, and E-Rate. With these four support mechanisms, the FCC strives to ensure that people in the United States have affordable access to advanced telecommunications services.

On November 22, 2019, the FCC adopted the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, which adopted a rule, codified at 47 C.F.R. § 54.9, prohibiting the use of USF support to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company found to pose a national security threat to the integrity of communications networks or the communications supply chain[1]. On June 30, 2020, the FCC's Public Safety and Homeland Security Bureau issued final designations of Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries, as companies that pose such threats ("Covered Companies")[2], and thus, the prohibition against the use of USF support applies to equipment and services produced or provided by these Covered Companies as of June 30, 2020.

USAC engaged KPMG to conduct a performance audit relating to the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $913,354 made from the High Cost Program from July 1, 2020 to December 31, 2020; disbursements of $11,604 made from the E-Rate Program from July 1, 2020 to June 30, 2021; and disbursements of $18,769 made from the RHC Program from July 1, 2020 to June 30, 2021.

USF Recipient Overview

PC Telcom (SAC: 462197 and SPIN: 143002497), the subject of this performance audit, is located in Holyoke, Colorado and provides telephone, internet, and television services. PC Telcom and its wholly-owned subsidiary, Phillips County Communications LLC, provide communication services to subscribers in northeastern Colorado and internet to subscribers in Nebraska.

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[1] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs*, WC Docket No. 18-89, Report and Order, Further Notice of Proposed Rulemaking, and Order, 34 FCC Rcd 11423 (2019); 47 C.F.R. Section 54.9.

[2] *Public Safety and Homeland Security Bureau Issues Final Designations of Huawei Technologies Company and ZTE Corporation as Companies Posing a National Security Threat to the Integrity of Communications Networks and the Communications Supply Chain. Pursuant to 47 CFR § 54.9. PS Docket Nos. 19-351, 19-352*, Public Notice, 35 FCC Rcd 6602 (8).

High Cost

In the table below, we show the High Cost support disbursed by USAC to the USF Recipient from July 1, 2020 to December 31, 2020, by High Cost fund type:

High Cost Fund Type	Amount
ACAM II	$805,683[3]
CAF BLS	$43,284[4]
HCL	$(275)[4]
CAF ICC	$64,662
TOTAL	**$913,354**

Source: USAC

The USF Recipient received High Cost support during the six-month period from July 1, 2020 to December 31, 2020, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

HCL, CAF ICC, and CAF BLS funds, disbursed in 2020, were based on forms submitted in 2019 that encompass 2018 data (line count data and totals of specific pre-designated G/L Accounts including all asset accounts that roll into the Telecom Plant in Service as well as specific deferred liabilities and operating expenses subject to the allocation between regulated and non-regulated activities). ACAM II and CAF BLS funds, disbursed in 2020, were based on the FCC support authorization public notice and subject to deployment obligations.

E-Rate

In the table below, we show the E-Rate support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2020 to June 30, 2021, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	$11,604
	TOTAL	**$11,604**

Source: USAC

E-Rate Category One includes the services needed to support broadband connectivity to schools and libraries. Data transmission and/or Internet access services are eligible in Category One[5].

RHC

In the table below, we show the RHC support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2020 to June 30, 2021, by RHC program fund:

RHC Program Fund	Amount
Healthcare Connect Fund	$18,768
TOTAL	**$18,768**

Source: USAC

The RHC Program funds broadband services via the Healthcare Connect Fund.

[3] Based on the procedures performed, KPMG verified that the ACAM II disbursements were not used to "purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by" Covered Companies as of December 31, 2020. Because ACAM II has a future deployment obligation, PC Telcom may still expend any remaining ACAM II disbursements in periods subsequent to our performance audit period.

[4] These amounts represent prior year funding true-ups that resulted from the conversion from legacy funds to modernized funds.

[5] *Funding Year 2020 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $913,354 made from the High Cost Program from July 1, 2020 to December 31, 2020; disbursements of $11,604 made from the E-Rate Program from July 1, 2020 to June 30, 2021; and disbursements of $18,769 made from the RHC Program from July 1, 2020 to June 30, 2021.

SCOPE

The scope of this performance audit included, but was not limited to, review of the CPRs, G/L details, and asset listings; review of internal network diagrams and internal scan outputs, if available; review of vendor policies, approved vendors, network vendor transactions and invoices; and physical inspection to determine whether USF funds were used for equipment or services produced or provided by the Covered Companies. The scope of our work relates to disbursements made from the High Cost Program from July 1, 2020 to December 31, 2020; disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021; and disbursements made from the RHC Program from July 1, 2020 to June 30, 2021.

Our performance audit includes, but is not limited to, the following focus areas:

1. Annual Supply Chain Certification
2. Asset Records
3. Network Architecture
4. Vendor Transactions

PROCEDURES

1. **Annual Supply Chain Certification**

   KPMG obtained the FCC Form 481, FCC Form 463 and FCC Form 473 related to the program disbursement periods under review and verified that the USF Recipient certified that "no universal service support has been or will be used to purchase, obtain, maintain, improve, modify or otherwise support any equipment or services produced or provided by any company designated by Federal Communications Commission as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations."

2. **Asset Records**

   High Cost

   KPMG obtained the COE CPRs and reconciled the amounts to the G/L for accounts 2210 (Central Office – Switching) and 2230 (Central Office – Transmission) to ensure all telecommunications network equipment were accounted for in PC Telcom's records. KPMG performed a key word search of the COE CPRs to obtain reasonable assurance that no links to the Covered Companies could be identified. KPMG selected a non-statistical sample of 31 assets and requested supporting invoices to verify that the equipment detail in the invoices matched the CPR details and that no equipment or services were produced or provided by the Covered Companies. KPMG also reviewed the TPUC account to verify that any work in progress (not yet added to the CPRs) could not be traced to the Covered Companies.

E-Rate

KPMG selected two out of two Funding Request Numbers (FRNs) for testing. This represents 100% coverage of the E-Rate disbursements and also represents each type of service that was funded for our audit period.

For the selected FRNs with Category One services, KPMG obtained the underlying PC Telcom bills that support the BEAR forms submitted to USAC for reimbursement. KPMG obtained 24 bills (12 monthly bills for each FRN) and reviewed the detail to determine what equipment and/or services were included as part of the Category One services. KPMG also inquired of PC Telcom to understand what was provisioned to the E-Rate Beneficiaries as part of this service. KPMG noted no equipment was provisioned to the Beneficiaries as part of the Category One services. PC Telcom also confirmed the internal equipment used to provide the broadband services was included in the PC Telcom network documentation provided. KPMG reviewed the PC Telcom network, which was used to provide the E-Rate Category One broadband services, as described in the Network Architecture section below.

RHC

KPMG selected two out of two FRNs for testing. This represents 100% coverage of the RHC disbursements for our audit period. KPMG obtained the underlying PC Telcom bills that support the FCC Forms 463 submitted to USAC for reimbursement. KPMG obtained 24 bills (12 monthly bills for each FRN) and reviewed the detail to determine what equipment and/or services were included. KPMG also inquired of PC Telcom to understand what was provisioned to the RHC Beneficiaries as part of this service. KPMG noted PC Telcom leased equipment to the RHC Beneficiaries as part of the broadband service provided. KPMG obtained the list of leased equipment and verified that none of the items could be traced to the Covered Companies.

3. **Network Architecture**

KPMG reviewed network diagrams and conducted a physical inspection of the PC Telcom network to validate the physical existence of a sample of 31 COE assets and to confirm that the manufacturer and model in the CPR details provided matched the equipment in service. We reviewed the COE CPR details and physical COE assets to verify that key indicators such as asset manufacturer, vendor and model could not be traced to Covered Companies. KPMG also obtained reporting from multiple PC Telcom network monitoring tools and performed a search of these outputs as well, to obtain reasonable assurance that key indicators could not be traced to Covered Companies.

4. **Vendor Transactions**

KPMG obtained a list of approved Vendors and Vendor transaction G/L details. KPMG researched the vendors to verify that none were linked to the Covered Companies. To further verify that no other vendors were used to provide services to the network, KPMG selected a non-statistical sample of 24 transactions from G/L COE network related accounts 2003 (TPUC), 2210 (Central Office – Switching), 2230 (Central Office – Transmission), 6210 (Switching Expense) and 6230 (Transmission Expense). We obtained and reviewed underlying invoices to verify that the transactions sampled did not include equipment or services that were produced or provided by Covered Companies. KPMG also performed a keyword search of the G/L accounts noted above to obtain reasonable assurance that no links to the Covered Companies could be identified.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

KPMG's performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

KPMG's evaluation of the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relevant to the disbursements made from the High Cost Program from July 1, 2020 to December 31, 2020; the disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021; and the disbursements made from the RHC Program from July 1, 2020 to June 30, 2021; identified no audit findings.

** This concludes the audit report.**

Attachment E

SC2022BE005

Scott Rice Integra
Audit ID: SC2022BE005
SAC: 361479

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from July 1, 2020 to December 31, 2020

Prepared for: Universal Service Administrative Company

As of Date: May 16, 2023

KPMG LLP
1021 E Cary Street
Suite 2000
Richmond, VA 23219

TABLE OF CONTENTS

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

EXECUTIVE SUMMARY

May 16, 2023

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the Supply Chain performance audit objective relative to Scott Rice Integra (Universal Service Fund ("USF") Recipient or Scott Rice), Study Area Code ("SAC") 361479 and Service Provider Identification Number ("SPIN") 143002136, for disbursements of $815,886 made from the USF's High Cost Program from July 1, 2020, to December 31, 2020. Our work was performed from June 30, 2022, to May 16, 2023 and our results are as of May 16, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements, or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objective of this performance audit was to evaluate the USF Recipient's compliance with the Federal Communications Commission's (FCC) *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9 (collectively, the "FCC Rules") relative to disbursements of $815,886 made from the High Cost Program from July 1, 2020 to December 31, 2020.

Compliance with FCC Rules is the responsibility of the USF Recipient, who is required to affirmatively demonstrate compliance with the applicable rules. Our responsibility is to evaluate the USF Recipient's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG did not identify any audit findings as a result of the work performed.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the Universal Service Administrative Company, the USF Recipient, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties. This report is not confidential and may be released by USAC and the FCC.

Sincerely,

KPMG LLP

cc: Radha Sekar, USAC Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division

List of Acronyms

Acronym	Definition
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
C.F.R.	Code of Federal Regulations
COE	Central Office Equipment
Covered Companies	Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries were designated as a threat to national security by the FCC on June 30, 2020.
CPRs	Continuing Property Records
FCC	Federal Communications Commission
FCC Form 481	Carrier Annual Reporting Data Collection Form
G/L	General Ledger
Scott Rice	Scott Rice Integra
TB	Trial Balance
TPUC	Telecommunications Plant Under Construction
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation operating under the FCC's direction pursuant to 47 C.F.R. Part 54. USAC is the permanent administrator of the Universal Service Fund, which includes four support mechanisms: High Cost, Lifeline, Rural Health Care, and E-Rate. With these four support mechanisms, the FCC strives to ensure that people in the United States have affordable access to advanced telecommunications services.

On November 22, 2019, the FCC adopted the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, which adopted a rule, codified at 47 C.F.R. § 54.9, prohibiting the use of USF support to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company found to pose a national security threat to the integrity of communications networks or the communications supply chain[1]. On June 30, 2020, the FCC's Public Safety and Homeland Security Bureau issued final designations of Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries, as companies that pose such threats ("Covered Companies")[2], and thus, the prohibition against the use of USF support applies to equipment and services produced or provided by these Covered Companies as of June 30, 2020.

USAC engaged KPMG to conduct a performance audit relating to the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $815,886 made from the High Cost Program from July 1, 2020 to December 31, 2020.

USF Recipient Overview

Scott Rice (SAC: 361479 and SPIN: 143002136), the subject of this performance audit, is located in New Ulm, Minnesota. Scott Rice provides telephone, internet and television services. Scott Rice is a wholly-owned subsidiary of Nuvera Communications. Established in Minnesota in 1905 as a single communications company, Nuvera Communications, through its subsidiaries, provides Internet protocol television and cable television services, Internet access services, including high-speed broadband access, long distance service, and tech support such as installing and maintaining communications systems[3].

In the table below, we show the High Cost support disbursed by USAC to the USF Recipient from July 1, 2020 to December 31, 2020, by High Cost fund type:

[1] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs*, WC Docket No. 18-89, Report and Order, Further Notice of Proposed Rulemaking, and Order, 34 FCC Rcd 11423 (2019); 47 C.F.R. Section 54.9.

[2] *Public Safety and Homeland Security Bureau Issues Final Designations of Huawei Technologies Company and ZTE Corporation as Companies Posing a National Security Threat to the Integrity of Communications Networks and the Communications Supply Chain. Pursuant to 47 CFR § 54.9. PS Docket Nos. 19-351, 19-352,* Public Notice, 35 FCC Rcd 6602 (8).

[3] USF Recipient overview information is from Nuvera Communications, Inc. 2020 Form 10-K Filling.

High Cost Fund Type	Amount
CAF BLS	$674,586
CAF ICC	$141,300
TOTAL	**$815,886**

Source: USAC

The USF Recipient received High Cost support from July 1, 2020 to December 31, 2020, based on both legacy and modernized funds.

CAF ICC and CAF BLS funds, disbursed in 2020, were based on forms submitted in 2019 that encompass 2018 data (line count data and totals of specific pre-designated G/L Accounts, including all asset accounts that roll into the Telecom Plant in Service as well as specific deferred liabilities and operating expenses subject to the allocation between regulated and non-regulated activities). CAF BLS funds, disbursed in 2020, were based on the FCC support authorization public notice and subject to deployment obligations.

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $815,886 made from the High Cost Program from July 1, 2020 to December 31, 2020.

SCOPE

The scope of this performance audit included, but was not limited to, review of the Continuing Property Records and General Ledger details; review of internal network diagrams and internal scan outputs, if available; review of vendor policies, approved vendors, network vendor transactions and invoices; and physical inspection to determine whether USF funds were used for equipment or services produced or provided by the Covered Companies. The scope of our work relates to disbursements made from the High Cost Program from July 1, 2020 to December 31, 2020.

Our performance audit includes, but is not limited to, the following focus areas:

1. Annual Supply Chain Certification
2. Asset Records
3. Network Architecture
4. Vendor Transactions

PROCEDURES

1. **Annual Supply Chain Certification**

   KPMG obtained the FCC Form 481 filed in respect of 2020 and verified that the USF Recipient certified that "no universal service support has been or will be used to purchase, obtain, maintain, improve, modify or otherwise support any equipment or services produced or provided by any company designated by Federal Communications Commission as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations."

2. **Asset Records**

KPMG obtained the Central Office Equipment CPRs and reconciled the amounts to the Trial Balance for accounts 2210 (Central Office – Switching) and 2230 (Central Office – Transmission) to ensure all telecommunications network equipment were accounted for in the carrier's records. KPMG performed a keyword search of the COE CPRs to obtain reasonable assurance that no links to the Covered Companies could be identified. KPMG selected a non-statistical sample of 29 assets and requested supporting invoices to verify that the equipment detail in the invoices matched the CPR details and that no equipment or services was produced or provided by the Covered Companies. KPMG also reviewed Telecom Plant Under Construction to verify that no work in progress not yet added to the CPRs by end year could be traced to the Covered Companies.

3. **Network Architecture**

KPMG reviewed network diagrams and conducted a physical inspection of Scott Rice's network to validate the physical existence of COE assets across seven locations (one central office and six remotes) and to confirm that the manufacturer and model in the CPR details provided matched the equipment in service. We reviewed the COE CPR details and physical COE assets to verify that key indicators such as asset manufacturer, vendor, model, etc. could not be traced to Covered Companies.

4. **Vendor Transactions**

KPMG obtained a list of approved Vendors and Vendor transaction G/L details. KPMG researched the Vendors to verify that none were linked to the Covered Companies. To further verify that no other Vendors were used to provide services to the network, KPMG selected a non-statistical sample of 15 transactions from G/L network asset account 2230 (Central Office – Transmission) and network expense accounts 6210 (Switching Expense) and 6230 (Transmission Expense). We obtained and reviewed underlying invoices to verify that the transactions sampled were not USF funded network equipment or services that could be traced to Covered Companies. KPMG also performed a keyword search in the G/L accounts noted above to obtain reasonable assurance that no links to the Covered Companies could be identified.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

KPMG's performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

KPMG's evaluation of the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relevant to the disbursements made from the High Cost Program during the six-month period ended December 31, 2020 identified no audit findings.

** This concludes the audit report.**

Attachment F

SC2022BE009

Heartland Technology Group
Audit ID: SC2022BE009

Performance audit for the Universal Service Fund Supply Chain Audit Program related to E-Rate disbursements made from July 1, 2020 to June 30, 2021

Prepared for: Universal Service Administrative Company

As of Date: May 31, 2023

KPMG LLP
1021 E Cary Street
Suite 2000
Richmond, VA 23219

TABLE OF CONTENTS

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

EXECUTIVE SUMMARY

May 31, 2023

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the Supply Chain performance audit objective relative to Heartland Technology Group (Universal Service Fund ("USF") Recipient), Service Provider Identification Number ("SPIN") 143010763, for disbursements of $7,088,286 made from the E-Rate Program from July 1, 2020 to June 30, 2021. Our work was performed from June 14, 2022, to May 31, 2023 and our results are as of May 31, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements, or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objective of this performance audit was to evaluate the USF Recipient's compliance with the Federal Communications Commission's ("FCC") *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9 (collectively, the "FCC Rules") relative to disbursements of $7,088,286 made from the E-Rate Program from July 1, 2020 to June 30, 2021.

Compliance with FCC Rules is the responsibility of the USF Recipient who is required to affirmatively demonstrate compliance with the applicable rules. Our responsibility is to evaluate the USF Recipient's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG did not identify any audit findings as a result of the work performed.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the Universal Service Administrative Company, the USF Recipient, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties. This report is not confidential and may be released by USAC and the FCC.

Sincerely,

KPMG LLP

cc: Radha Sekar, USAC Chief Executive Officer
Craig Davis, USAC Vice President, E- Rate Division

List of Acronyms

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
BMIC	Basic Maintenance of Internal Connections
C.F.R.	Code of Federal Regulations
Covered Companies	Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries were designated as a threat to national security by the FCC on June 30, 2020.
FCC	Federal Communications Commission
FCC Form 473	Service Provider Annual Certification Form
G/L	General Ledger
Heartland	Heartland Technology Group
MIBS	Managed Internal Broadband Services
SPI	Service Provider Invoice form submitted for E-Rate reimbursement
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation operating under the FCC's direction pursuant to 47 C.F.R. Part 54. USAC is the permanent administrator of the Universal Service Fund which includes four support mechanisms: High Cost, Lifeline, Rural Health Care, and E-Rate. With these four support mechanisms, the FCC strives to ensure that people in the United States have affordable access to advanced telecommunications services.

On November 22, 2019, the FCC adopted the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, which adopted a rule, codified at 47 C.F.R. § 54.9, prohibiting the use of USF support to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company found to pose a national security threat to the integrity of communications networks or the communications supply chain[1]. On June 30, 2020, the FCC's Public Safety and Homeland Security Bureau issued final designations of Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries, as companies that pose such threats ("Covered Companies")[2], and thus, the prohibition against the use of USF support applies to equipment and services produced or provided by these Covered Companies as of June 30, 2020.

USAC engaged KPMG to conduct a performance audit relating to the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $7,088,286 made from the E-Rate Program from July 1, 2020 to June 30, 2021.

USF Recipient Overview

Heartland Technology Group (SPIN: 143010763), the subject of this performance audit, is located in Little Chute, Wisconsin. Heartland provides internet, web design, programming, IT consulting and implementation support services, sells computer hardware, software, supplies, and services, and manufactures thermal transfer and other labels, and receipt rolls[3]. Established in Wisconsin in 1990, Heartland is a stand-alone entity and has two wholly-owned subsidiaries including Heartland Label Printers and Heartland Business Systems. Heartland was a minority shareholder in Abaxent LLC from October, 2015 through December, 2020.

In the table below, we show the E-Rate support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2020 to June 30, 2021, by E-Rate service type:

[1] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs*, WC Docket No. 18-89, Report and Order, Further Notice of Proposed Rulemaking, and Order, 34 FCC Rcd 11423 (2019); 47 C.F.R. Section 54.9.

[2] *Public Safety and Homeland Security Bureau Issues Final Designations of Huawei Technologies Company and ZTE Corporation as Companies Posing a National Security Threat to the Integrity of Communications Networks and the Communications Supply Chain. Pursuant to 47 CFR § 54.9. PS Docket Nos. 19-351, 19-352,* Public Notice, 35 FCC Rcd 6602 (8).

[3] USF Recipient overview information is from Heartland Technology Group, Inc. and Subsidiaries Consolidated Financial Statements and Supplementary Information, Years Ended September 24, 2021 and September 25, 2020 (Restated)

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	$356,215
Category Two	Internal Connections	$6,344,776
Category Two	Basic Maintenance of internal Connections	$387,295
	TOTAL	**$7,088,286**

Source: USAC

E-Rate Category One includes the services needed to support broadband connectivity to schools and libraries. Data transmission and/or Internet access services are eligible in Category One[4].

E-Rate Category Two includes the internal connections needed for broadband connectivity within schools and libraries. Internal Connections, Managed Internal Broadband Service and Basic Maintenance of Internal Connections are eligible in Category Two[5].

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $7,088,286 made from the E-Rate Program from July 1, 2020 to June 30, 2021.

SCOPE

The scope of this performance audit included, but was not limited to, review of the network asset listings and invoices and review of vendor policies and approved vendors to determine whether USF funds were used for equipment or services produced or provided by the Covered Companies. The scope of our work relates to disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021.

Our performance audit includes, but is not limited to, the following focus areas:

1. Annual Supply Chain Certification
2. Asset Records
3. Network Architecture
4. Vendor Transactions

PROCEDURES

1. **Annual Supply Chain Certification**

   KPMG obtained the FCC Form 473 filed in respect of 2020 and verified that the USF Recipient certified that "no universal service support has been or will be used to purchase, obtain, maintain, improve, modify or otherwise support any equipment or services produced or provided by any company designated by the Federal Communications Commission as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations."

[4] *Funding Year 2020 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

[5] *Funding Year 2020 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

2. **Asset Records**

KPMG selected a sample of 21 out of 273 Funding Request Numbers for testing. This represents 53% coverage of the total disbursed dollars and 100% of the Category One disbursed dollars as there were only three of those FRNs. The FRNS sampled cover each type of service that was funded for the performance audit period.

For the three selected FRNs with Category One service, KPMG obtained the underlying Heartland bills that supported the reimbursement requests submitted to USAC. KPMG reviewed the bills to determine what equipment and/or services were included as part of the Category One FRNs. KPMG also inquired of Heartland to understand if any equipment was provisioned to the Beneficiary as part of this service. KPMG noted only equipment and labor-related services including installation, activation, configuration and maintenance were provided to the Beneficiary as part of the Category One service FRNs. Heartland did not use its own internal network to provide internet access or any other E-Rate funded services. KPMG obtained a spreadsheet listing of the equipment provisioned to the Beneficiary for each selected FRN and performed key word searches to obtain reasonable assurance that no link to the Covered Companies could be identified. KPMG selected a non-statistical sample of 12 out of 37 unique equipment types from the equipment listing related to Category One and 1) researched the model number to verify the item was not manufactured by a Covered Company and 2) requested and reviewed the corresponding Vendor invoice and payment confirmation for the same equipment to verify the Service Provider did not procure the equipment from a Covered Company.

KPMG noted 18 of the 21 selected FRNs had Category Two services. KPMG obtained the underlying Heartland bills that supported the reimbursement requests submitted to USAC. KPMG reviewed the bills to verify that no equipment or services could be traced to the Covered Companies. KPMG obtained a spreadsheet listing of the equipment provisioned to the Beneficiaries for each selected FRN and performed key word searches to obtain reasonable assurance that no link to the Covered Companies could be identified. For the BMIC FRN, KPMG also obtained a maintenance log for visibility into the Beneficiary equipment that received maintenance. KPMG selected a non-statistical sample of 48 out of 164 unique equipment types from the equipment listing related to Category Two and 1) researched the model number to verify the item was not manufactured by a Covered Company and 2) requested and reviewed the corresponding Vendor invoice and payment confirmation for the same equipment item to verify the Service Provider did not procure it from a Covered Company.

3. **Network Architecture**

KPMG verified Heartland procured and provided equipment and labor-related installation, activation, configuration and maintenance services only to the E-Rate Beneficiaries for Funding Year 2020. Heartland did not use its own internal network equipment to provide any E-Rate funded services; therefore, the inspection of Heartland’s network is not in scope for this performance audit.

4. **Vendor Transactions**

KPMG obtained a list of approved Vendors and researched the Vendors to verify that none were linked to the Covered Companies. The Heartland internal network was not in scope, as noted in the Network Architecture section above, so there were no internal network maintenance or other network support expenses in scope for the vendor transaction review. As described in the Asset Records section above, KPMG obtained the corresponding vendor invoices for the selected sample of E-Rate equipment provisioned to Beneficiaries in order to verify the items were not procured from a Covered Company.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECPIENT RESPONSES

KPMG's performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

KPMG's evaluation of the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relevant to the disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021; identified no audit findings.

** This concludes the audit report.**

Attachment G

SC2022BE010

Progressive Communications, Inc.
Audit ID: SC2022BE010

Performance audit for the Universal Service Fund Supply Chain Audit Program related to E-Rate disbursements made from July 1, 2020 to June 30, 2021

Prepared for: Universal Service Administrative Company

As of Date: May 30, 2023

KPMG LLP
8350 Broad Street
Suite 900
McLean, VA 22102

TABLE OF CONTENTS

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Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

May 30, 2023

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the Supply Chain performance audit objective relative to Progressive Communications, Inc. ("Progressive" or "Universal Service Fund ("USF") Recipient"), Service Provider Identification Numbers ("SPIN") 143020237 and 143029877, for disbursements of $385,776 made from the USF's E-Rate Program from July 1, 2020 to June 30, 2021. Our work was performed from June 14, 2022 to May 30, 2023, and our results are as of May 30, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements, or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objective of this performance audit was to evaluate the USF Recipient's compliance with the Federal Communications Commission's ("FCC") *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9 (collectively, the "FCC Rules") relative to disbursements of $385,776 made from the E-Rate Program from July 1, 2020 to June 30, 2021.

Compliance with FCC Rules is the responsibility of the USF Recipient who is required to affirmatively demonstrate compliance with the applicable rules. Our responsibility is to evaluate the USF Recipient's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG did not identify any audit findings as a result of the work performed.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the Universal Service Administrative Company, the USF Recipient, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties. This report is not confidential and may be released by USAC and the FCC.

Sincerely,

KPMG LLP

cc: Radha Sekar, USAC Chief Executive Officer
Craig Davis, USAC Vice President, E- Rate Division

List of Acronyms

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
BMIC	Basic Maintenance of Internal Connections
C.F.R.	Code of Federal Regulations
Covered Companies	Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries were designated as a threat to national security by the FCC on June 30, 2020.
FCC	Federal Communications Commission
FCC Form 473	Service Provider Annual Certification Form
FRN	Funding Request Number
MIBS	Managed Internal Broadband Services
Progressive	Progressive Communications, Inc.
SPI	Service Provider Invoice form submitted for E-Rate reimbursement
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation operating under the FCC's direction pursuant to 47 C.F.R. Part 54. USAC is the permanent administrator of the Universal Service Fund which includes four support mechanisms: High Cost, Lifeline, Rural Health Care, and E-Rate. With these four support mechanisms, the FCC strives to ensure that people in the United States have affordable access to advanced telecommunications services.

On November 22, 2019, the FCC adopted the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, which adopted a rule, codified at 47 C.F.R. § 54.9, prohibiting the use of USF support to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company found to pose a national security threat to the integrity of communications networks or the communications supply chain[1] . On June 30, 2020, the FCC's Public Safety and Homeland Security Bureau issued final designations of Huawei Technologies Company and ZTE Corporation, and their parents, affiliates, and subsidiaries, as companies that pose such threats ("Covered Companies")[2], and thus, the prohibition against the use of USF support applies to equipment and services produced or provided by these Covered Companies as of June 30, 2020.

USAC engaged KPMG to conduct a performance audit relating to the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $385,776 made from the E-Rate Program from July 1, 2020 to June 30, 2021.

USF Recipient Overview

Progressive Communications, Inc. (SPINs: 143020237 and 143029877), the subject of this performance audit, is located in Macon, GA. Progressive provides telephone, internet, and television services. Progressive Communications is a part of the Progressive Group of companies, which specialize in network infrastructure, voice solutions, wireless solutions, and managed services.

In the table below, we show the E-Rate support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2020 to June 30, 2021, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Committed Amount	Disbursed Amount
Category Two	Internal Connections	$369,833	$346,422
Category Two	Managed Internal Broadband Services ("MIBS")	$37,375	$33,891
Category Two	Basic Maintenance of Internal Connections ("BMIC")	$17,467	$5,463
	TOTAL	**$424,675**	**$385,776**

Source: USAC

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[1] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs*, WC Docket No. 18-89, Report and Order, Further Notice of Proposed Rulemaking, and Order, 34 FCC Rcd 11423 (2019); 47 C.F.R. Section 54.9

[2] *Public Safety and Homeland Security Bureau Issues Final Designations of Huawei Technologies Company and ZTE Corporation as Companies Posing a National Security Threat to the Integrity of Communications Networks and the Communications Supply Chain. Pursuant to 47 CFR § 54.9. PS Docket Nos. 19-351, 19-352,* Public Notice, 35 FCC Rcd 6602 (8).

E-Rate Category Two includes the internal connections needed for broadband connectivity within schools and libraries. Broadband Internal Connections, MIBS and BMIC are eligible in Category Two.[3]

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relative to disbursements of $385,776 made from the E-Rate Program from July 1, 2020 to June 30, 2021.

SCOPE

The scope of this performance audit included, but was not limited to, review of the network asset listings and invoices; and review of vendor policies and approved vendors to determine whether USF funds were used for equipment or services produced or provided by the Covered Companies. The scope of our work relates to disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021.

Our performance audit includes, but is not limited to, the following focus areas:

1. Annual Supply Chain Certification
2. Asset Records
3. Network Architecture
4. Vendor Transactions

PROCEDURES

1. Annual Supply Chain Certification

KPMG obtained the FCC Form 473 for Funding Year 2020 and verified that the USF Recipient certified that "no universal service support has been or will be used to purchase, obtain, maintain, improve, modify or otherwise support any equipment or services produced or provided by any company designated by the FCC as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations."

2. Asset Records

KPMG sampled eight out of 21 Funding Request Numbers for testing. This represents 63% coverage of the disbursed dollars and also represents each type of service that was funded for the performance audit period: Internal Connections, Basic Maintenance of Internal Connections and Managed Internal Broadband Services.

For the selected FRNs, KPMG obtained the underlying Progressive bills that supported the reimbursement requests submitted to USAC. KPMG reviewed the bills and researched equipment model and manufacturer to verify that none of the E-Rate funded items were produced by the Covered Companies. KPMG also obtained the corresponding vendor invoices to verify that Progressive did not procure any of the E-Rate funded equipment from a Covered Company.

[3] *Funding Year 2020 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

For the five internal connections FRNs and one BMIC FRN selected, KPMG reviewed all of the equipment listed in the supporting bills and researched the model numbers to confirm that none of the items could be traced to the Covered Companies.

For the one MIBS FRN selected, KPMG obtained a spreadsheet listing of the Beneficiary equipment that was monitored by Progressive as part of this service, as the bill did not contain that level of detail. KPMG compared the spreadsheet listing to documentation obtained by USAC during a prior Program Integrity Assurance review of this same FRN, and we confirmed the equipment types and models were consistent. KPMG also observed that the equipment being monitored was consistent with the switches and access points that were purchased by the Beneficiary under the Internal Connections FRN for this same funding year. KPMG noted that Progressive conducted this monitoring by accessing the dashboard of Beneficiary-owned monitoring software. Progressive did not use any internal tool or their own network to provide the monitoring service. KPMG reviewed the list of equipment monitored along with the monitoring software to confirm that the equipment being serviced was not produced or provided by the Covered Companies.

3. **Network Architecture**

   Through inquiry and review of supporting invoice documentation, KPMG verified Progressive procured and provided equipment and labor-related installation, activation, configuration, monitoring and maintenance services only to the E-Rate Beneficiaries for Funding Year 2020. Progressive did not use its own internal network equipment to provide any E-Rate funded services; therefore, the inspection of Progressive's network is not in scope for this performance audit.

4. **Vendor Transactions**

   KPMG obtained a list of approved Vendors and researched the Vendors to verify that none were linked to the Covered Companies. The Progressive internal network was not in scope, as noted in the Network Architecture section above, so there were no internal network maintenance or other network support expenses in scope for the vendor transaction review. As described in the Asset Records section above, KPMG did obtain the corresponding vendor invoices for the selected sample of E-Rate equipment provisioned to Beneficiaries in order to verify the items were not procured from a Covered Company.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECPIENT RESPONSES

KPMG's performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

KPMG's evaluation of the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, relevant to the disbursements made from the E-Rate Program from July 1, 2020 to June 30, 2021, identified no audit findings.

** This concludes the audit report.**