Board of Directors

Supply Chain Audit Reports

Briefing Book

Monday, October 28, 2025

Available for Public Use

Universal Service Administrative Company

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

Washington, DC 20005

Summary of the Supply Chain Audit Reports Released: August 2025.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment A Atlantic Membership	0	• Not applicable.	$21,057,474	$0	$0	N/A
Attachment B Nuvera Communications	0	• Not applicable.	$9,317,114	$0	$0	N/A
Attachment C Eastex Telephone Cooperative, Inc.	0	• Not applicable.	$18,978,153	$0	$0	N/A
Attachment D Consolidated Telephone Company	0	• Not applicable.	$8,225,960	$0	$0	N/A
Attachment E Duo County Telephone Coop Corporation, Inc.	0	• Not applicable.	$11,676,270	$0	$0	N/A
Total	**0**		**$69,254,971**	**$0**	**$0**	

Attachment A

SC2024BE001

Atlantic Membership Audit ID: SC2024BE001

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from January 1, 2022 to December 31, 2022

Prepared for: Universal Service Administrative Company

As of Date: August 6, 2025

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Report of Independent Auditors on Atlantic Telephone Membership Corporation Compliance with Federal Communications Commission's rules related to the Universal Service Fund

August 6, 2025

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 Atlantic Telephone Membership Corporation (Universal Service Fund ("USF") Recipient, Study Area Code ("SAC") 230468 or "Atlantic Membership") Service Provider Identification Number ("SPIN") 143001482), for disbursements of $21,057,474 made from the Universal Service Fund's High Cost Program from January 1, 2022 to December 31, 2022. Our work was performed from August 19, 2024, to January 17, 2025 and our results are as of August 6, 2025.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This performance audit did not constitute an audit of financial statements in accordance with auditing standards generally accepted in the United States (US). As such, while this report may be released to the public by Universal Service Administration Co. (USAC) and the Federal Communications Commission's (FCC), this report is intended for USAC, the FCC, and the audited entity and is not intended to be nor should it be relied upon by others.

The objective of this performance audit was to evaluate the USF Recipient's compliance with the FCC *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, rule 47 Code of Federal Regulations (C.F.R.) § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.10 (collectively, the "FCC Rules") relative to disbursements of $21,057,474 made from the High Cost Program from January 1, 2022 to December 31, 2022.

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, Ernst and Young, LLP (EY) did not identify any audit findings as a result of the work performed.

EY cautions that projecting the results of our evaluation to future periods is subject to the risk that conditions at the entity may have changed.

Sincerely,

Ernst + Young LLP

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

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LIST OF ACRONYMS

Acronym	Definition
AICPA	American Institute of Certified Public Accountants
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 List Companies	Huawei Technologies Company, ZTE Corporation, Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, and Dahua Technology Company, and their parents, affiliates, and subsidiaries to the extent they were included on the Covered List for the applicable audit period.
Covered List	A list, published and maintained by the FCC's Public Safety and Homeland Security Bureau, of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States or the security and safety of United States persons.
CPRs	Continuing Property Records
FCC	Federal Communications Commission
FCC Form 481	Carrier Annual Reporting Data Collection Form
GAGAS	Generally Accepted Government Auditing Standards
G/L	General Ledger
HCL	High Cost Loop
SAC	Study Area Code
SPIN	Service Provider Identification Number
USAC	Universal Service Administrative Company
USF	Universal Service Fund
Atlantic Membership	Atlantic Telephone Membership Corporation

AUDIT RESULTS

EY'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 (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.

In November 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, which prohibits the use of any funds from the USF to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company that pose a national security threat to the integrity of communications networks or the communications supply chain.[1] In this order, the FCC explicitly stated that USF recipients must be able to affirmatively demonstrate that no universal service funds were used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services provided or manufactured by Covered List Companies. In December 2020, the FCC released the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order* to implement the Secure and Trusted Communications Networks Act of 2019.[2] The *Second Report and Order* adopted a rule, codified at 47 C.F.R. § 54.10, which prohibits the use of certain federal subsidies, including USF funds, to purchase, rent, lease, or otherwise obtain any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, identified and published on the Covered List.[3]

The Covered List is a list of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States or the security and safety of United States persons.[4] The FCC's Public Safety and Homeland Security Bureau publishes and maintains the Covered List and may update the list at any time.[5] The current list can be found at https://www.fcc.gov/supplychain/coveredlist. Please note that the scope for this audit was limited to USF support, funds disbursed under the Congressional Response (appropriated) programs were not in scope for this audit.

USAC engaged EY 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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order*, rule 47 C.F.R. § 54.10,

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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 *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs,* WC Docket No. 18-89, Second Report and Order, 35 FCC Rcd 14284 (2020). 47 C.F.R. Section 54.10.

3 *List of Equipment and Services Covered By Section 2 of The Secure Networks Act | Federal Communications Commission (fcc.gov)*

4 *Public Safety and Homeland Security Bureau Announces Publication of the List of Equipment and Services Covered by Section 2 of The Secure Networks Act*, WC Docket No. 18-89, Public Notice, DA 21-309 (2021).

5 47 CFR 1.50002.

relative to disbursements of $21,057,474 made from the High Cost Program from January 1, 2022 to December 31, 2022.

USF Recipient Overview

Atlantic Membership (SPIN: 143001482), the subject of this performance audit, is located in Shallotte, North Carolina and does business as Focus Broadband. The USF recipient Atlantic Telephone Membership Corporation has two wholly owned subsidiaries, Atlantic Seawinds Communications, LLC, and Atlantic Telecom Multimedia Consolidated, LLC.

Atlantic Membership has two divisions: Telephone Operations and Cable Television (CATV) Operations.

In the table below, we show the High Cost support disbursed by USAC to the USF Recipient during the twelve-month period from January 1, 2022 to December 31, 2022, by High Cost fund type:

High Cost Fund Type	Amount
CAF BLS	$16,596,564.00
HCL	$2,278,512.00
CAF ICC	$2,182,398.00
TOTAL	**$21,057,474.00**

Source: USAC Open Data

The USF Recipient received High Cost Loop (HCL) support from January 1, 2022 to December 31, 2022, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

Connect America Fund Intercarrier Compensation (CAF ICC) and Connect America Fund Broadband Loop Support (CAF BLS) funds disbursed in 2022, were based on forms submitted in 2020 that encompass 2020 data (line count data and totals of specific pre-designated General Ledger (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.

OBJECTIVE

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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order*, rule 47 C.F.R. § 54.10, relative to disbursements of $21,057,474 made from the High Cost Program from January 1, 2022 to December 31, 2022.

SCOPE

The scope of this performance audit included, but was not limited to the reconciliation of USF support received to the USF recipient's underlying financial data and related expenditures, review of equipment listings, vendor list, inventory list and expense details to identify transactions with details that match with the names of the Covered List Companies; review of internal network diagrams, network vendor transactions and invoices; and physical inspection (where applicable) to determine whether USF funds were used for equipment or services produced or provided by the Covered List Companies.

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

1. Annual supply chain certification review
2. Reconciliation of USF expenditures
3. Data analysis of relevant financial records
4. Review of asset records
5. Review of open work orders
6. Review of cost study adjustments
7. Review of vendor listing
8. Inventory procedures
9. Network architecture review

Our audit did not consider the Company's internal controls related to the FCC Rules because internal controls were not significant within the context of our audit objectives.

PROCEDURES

1. **Annual supply chain certification review**

   EY obtained the FCC Form 481 filed in respect to 2022 and verified that:

   For section 54.9, 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 FCC as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations."

   For section 54.10 the USF Recipient certified that no Federal subsidy made available through a program administered by the Commission that provides funds to be used for the capital expenditures necessary for the provision of advanced communications services has been or will be used to purchase, rent, lease, or otherwise obtain, any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, as required by 47 C.F.R. § 54.10.

2. **Reconciliation of USF expenditures**

   EY reconciled USF disbursements to recipient records.

   EY obtained and reviewed evidence of projects completed using USF support and determined whether elements of the project expenditure involved network equipment and services can be traced to Covered List or companies on the Covered List Companies. EY also analyzed recipients' financial and transactional information (including financial statements, G/L accounts for vendor payments, invoices, contracts, work order details) to identify potential transactions (equipment or services described in the Covered List) with Covered List Companies. Finally, EY reviewed the recipient‘s asset listings and related expense reports documentation and determined whether network elements that are included in the FCC’s published Covered List exist.

Additionally, we obtained the NECA statements and the detailed G/L to reconcile the USAC disbursement detail for High Cost funds to the recipient records for the program funding period.

3. **Data Analysis of relevant financial records**

   EY obtained G/L activity files for the funding period. EY conducted keyword searches across all relevant G/L details to identify transactions involving the Covered List Companies.

4. **Review of asset records**

   EY obtained the Central Office Equipment (COE) Continuing Property Records (CPRs) and reconciled the amounts to the Trial Balance or G/L for accounts 2210 (Central Office – Switching), 2230 (Central Office – Transmission), and 2410 (Information Origination/Termination) to ensure all telecommunications network equipment was accounted for in the carrier’s records. EY performed a keyword search of the COE CPRs to obtain reasonable assurance that no links to the Covered List Companies could be identified. EY selected a non-statistical sample of 25 assets and requested relevant support to verify that the equipment details in the invoices matched the CPR details and that no equipment or services were produced or provided by companies on the Covered List Companies. EY 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.

5. **Review of open workorders**

   EY obtained the open workorder listing and determined whether any of the open work orders were included in the CPRs. After EY determined none of the open work orders were included in the CPRs, we selected a non-statistical sample of 10 open work orders. We obtained and reviewed the underlying work order details to determine whether the equipment and services provided under the work order were from Covered List Companies. Additionally, we selected the top 25 equipment samples from the work order selections. We obtained and reviewed the underlying invoices provided by the entity for the equipment samples to verify that the equipment was not manufactured by companies on the Covert List Companies. For invoices that didn’t have manufacturer information, we received additional details from the vendor to determine the manufacturer.

   The network engineer reviewed the open work orders and supporting documents to confirm the ownership and status of equipment as well as to identify any transactions or equipment from Covered Companies.

6. **Review of cost study adjustments**

   EY obtained and reviewed a listing of cost study adjustments related to the funding period to determine whether costs were removed from the study for services or equipment purchases related to a Covered List Companies or the Covered List.

7. **Review of vendor listing**

   EY obtained and reviewed the master vendor listing to determine whether any vendor is affiliated with the Covered Companies at the population level. We compared vendor names to the Covered List to determine if services were purchased from a Covered Company. The network engineer reviewed the vendor listing to determine whether any vendor is affiliated with the Covered Companies at the population level.

8. **Inventory procedures**

   EY obtained detailed inventory listings for additions during the program funding period. We reconciled the listing to the G/L to validate completeness. Reviewed the list and determined, at a population level, whether any purchases were made from the list of "Covered Companies", or for equipment/services from the "Covered List". Additionally, we selected 25 samples from the inventory listing and obtained and reviewed the underlying invoices provided by the entity to verify that the equipment was not manufactured by Covered Companies. For invoices that didn’t have manufacturer information, we received additional details from the vendor to determine the manufacturer.

   The network engineer reviewed the inventory listing to identify any transactions with covered companies.

9. **Network architecture review**

   EY obtained and reviewed the network scan report from the audited entity for potential equipment that could be traced back to "Covered Companies" or their parents, subsidiaries, or affiliates. EY reviewed the network scan report to identify all telecommunications and video surveillance equipment in use.

   We also obtained and examined the network architecture diagram and supporting information to identify potential additional equipment that could be traced to "Covered Companies" or "Covered List" or retained equipment and network elements which could potentially be serviced, maintained, improved, modified or supported by "Covered Companies" or the "Covered List". EY reviewed the network architecture diagram to identify the types of equipment used in the access, distribution, and core layers of the network as well as analyze the interconnections between different network components to ensure that no covered equipment is present.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

EY ’s performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

EY'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 January 1, 2022 to December 31, 2022 identified no audit findings.

** This concludes the audit report.**

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Attachment B

SC2024BE006

Nuvera Communications Audit ID: SC2024BE006

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from January 1, 2022 to December 31, 2022 and E-Rate disbursements made from July 1, 2022 to June 30, 2023; and Rural Health Care disbursements made from July 1, 2022 to June 30, 2023

Prepared for: Universal Service Administrative Company

As of Date: August 6, 2025

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Report of Independent Auditors on Nuvera Communications Compliance with Federal Communications Commission's rules related to the Universal Service Fund

August 6, 2025

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 Nuvera Communications (Universal Service Fund ("USF") Recipient, Study Area Code ("SAC") 361442 or "Nuvera") Service Provider Identification Number ("SPIN") 143002123), for disbursements of $8,733,002.76 made from the Universal Service Fund's High Cost Program from January 1, 2022 to December 31, 2022 and disbursements of $562,992.41 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of $21,118.91 made from the Rural Health Care ("RHC") Program from July 1, 2022 to June 30, 2023. Our work was performed from December 09, 2024, to April 23, 2025 and our results are as of June 30, 2025.

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.

This performance audit did not constitute an audit of financial statements in accordance with auditing standards generally accepted in the United States (US). As such, while this report may be released to the public by Universal Service Administration Co. (USAC) and the Federal Communications Commission's (FCC), this report is intended for USAC, the FCC, and the audited entity and is not intended to be nor should it be relied upon by others.

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The objective of this performance audit was to evaluate the USF Recipient's compliance with the FCC *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, rule 47 Code of Federal Regulations (C.F.R.) § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.10 (collectively, the "FCC Rules") relative to disbursements of $8.733,002.76 made from the High Cost Program from January 1, 2022 to December 31, 2022, disbursements of $562,992.41 made from the E-Rate Program from July 1, 2022 to June 30, 202x and disbursements of $21,118.91 made from the RHC Program from July 1, 2022 to June 30, 2023.

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, Ernst & Young, LLP (EY) did not identify any audit findings as a result of the work performed.

EY cautions that projecting the results of our evaluation to future periods is subject to the risk that conditions at the entity may have changed.

Sincerely,

Ernst + Young 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

TABLE OF CONTENTS

LIST OF ACRONYMS

Acronym	Definition
ACAM_II	Alternative Connect America Cost Model II
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
CAF ICC	Connect America Fund Intercarrier Compensation
C.F.R.	Code of Federal Regulations
COE	Central Office Equipment
Covered List Companies	Huawei Technologies Company, ZTE Corporation, Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, and Dahua Technology Company, and their parents, affiliates, and subsidiaries to the extent they were included on the Covered List for the applicable audit period.
Covered List	A list, published and maintained by the FCC's Public Safety and Homeland Security Bureau, of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States or the security and safety of United States persons.
CPRs	Continuing Property Records
E-Rate	Universal Service Program for Schools and Libraries
EY	Ernst & Young, LLP
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
RHC	Rural Health Care Program
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
Nuvera (USF Recipient)	Nuvera Communications

AUDIT RESULTS

EY'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.

In November 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, which prohibits the use of any funds from the USF to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company that pose a national security threat to the integrity of communications networks or the communications supply chain.[1] In this order, the FCC explicitly stated that USF recipients must be able to affirmatively demonstrate that no universal service funds were used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services provided or manufactured by Covered List Companies. In December 2020, the FCC released the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order* to implement the Secure and Trusted Communications Networks Act of 2019.[2] The *Second Report and Order* adopted a rule, codified at 47 C.F.R. § 54.10, which prohibits the use of certain federal subsidies, including USF funds, to purchase, rent, lease, or otherwise obtain any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, identified and published on the Covered List.[3]

The Covered List is a list of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States or the security and safety of United States persons.[4] The FCC's Public Safety and Homeland Security Bureau publishes and maintains the Covered List and may update the list at any time.[5] The current list can be found at https://www.fcc.gov/supplychain/coveredlist. Please note that the scope for this audit was limited to USF support, funds disbursed under the Congressional Response (appropriated) programs were not in scope for this audit.

USAC engaged EY 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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.1, relative to disbursements of $8,733,002.76 made from the High Cost Program from January 1, 2022 to

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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] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs,* WC Docket No. 18-89, Second Report and Order, 35 FCC Rcd 14284 (2020). 47 C.F.R. Section 54.10.

[3] *List of Equipment and Services Covered By Section 2 of The Secure Networks Act | Federal Communications Commission (fcc.gov)*

[4] *Public Safety and Homeland Security Bureau Announces Publication of the List of Equipment and Services Covered by Section 2 of The Secure Networks Act*, WC Docket No. 18-89, Public Notice, DA 21-309 (2021).

[5] 47 CFR 1.50002.

December 31, 2022; disbursements of $ 562,992.41 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of $21,118.91 made from the RHC Program from July 1, 2022 to June 30, 2023.

USF Recipient Overview

Nuvera (SPIN: 143002123), the subject of this performance audit, is located in New Ulm, Minnesota and does business as Nuvera Communications. The USF recipient has several wholly owned subsidiaries, Hutchinson Cellular, Inc., Hutchinson Telecommunications, Inc., Hutchinson Telephone Company, Peoples Telephone Company, Scott-Rice Telephone Co., Sleepy Eye Telephone Company, TechTrends Inc., and Western Telephone Company.

Nuvera reports their five main services (Voice Service, Network Access, Video Service, Data Service, and Alternative Connect America Cost Model (ACAM)) as one segment: Communications Segment.

High Cost

In the table below, we show the High Cost support disbursed by USAC to the USF Recipient during the twelve-month period from January 1, 2022 to December 31, 2022, by High Cost fund type:

High Cost Fund Type	Amount
ACAM	$8,354,480.76
CAF ICC	$378,522.00
TOTAL	**$8,733,002.76**

Source: USAC Open Data

The USF Recipient received High Cost support from January 1, 2022 to December 31, 2022, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

Connect America Fund Intercarrier Compensation (CAF ICC) and ACAM funds disbursed in 2022, were based on forms submitted in 2020 that encompass 2020 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 ICC and CAF BLS funds, disbursed in 2022, 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, 2022 to June 30, 2023, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	$562,992.41
	TOTAL	**$562,992.41**

Source: USAC Open Data

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.[6]

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, 2022 to June 30, 2023, by RHC Program Fund:

RHC Program Fund	Amount
Healthcare Connect Fund	$16,561.43
Telecommunication Program	$4,557.48
TOTAL	**$21,118.91**

Source: USAC Open Data

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

OBJECTIVE

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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.1, relative to disbursements of $8.733,002.76 made from the High Cost Program from January 1, 2022 to December 31, 2022; disbursements of $562,992.41 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of $21,118.91 made from the RHC Program from July 1, 2022 to June 30, 2023.

SCOPE

The scope of this performance audit included, but was not limited to the reconciliation of USF support received to the USF recipient's underlying financial data and related expenditures, review of the equipment listings, vendor list, inventory list and expense details to identify transactions with details that match with the names of the Covered List Companies; review of internal network diagrams, network vendor transactions and invoices; and physical inspection (where applicable) to determine whether USF funds were used for equipment or services produced or provided by the Covered List Companies.

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

1. Annual supply chain certification review
2. Reconciliation of USF expenditures
3. Data analysis of relevant financial records
4. Review of asset records
5. Review of open work orders

[6] *Funding Year 2022 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

6. Review of cost study adjustments
7. Review of vendor listing
8. Inventory procedures
9. Network architecture review

Our audit did not consider the Company's internal controls related to the FCC Rules because internal controls were not significant within the context of our audit objectives.

PROCEDURES

1. **Annual supply chain certification Review**
   EY obtained the FCC Form 481, FCC 463 and FCC Form 473 filed in respect of 2022 and verified that

   For section 54.9, 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."

   For section 54.10 the USF Recipient certified that no Federal subsidy made available through a program administered by the Commission that provides funds to be used for the capital expenditures necessary for the provision of advanced communications services has been or will be used to purchase, rent, lease, or otherwise obtain, any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, as required by 47 C.F.R. § 54.10.

2. **Reconciliation of USF expenditure**
   EY reconciled USF disbursements to recipient records.

   E-Rate and RHC
   EY obtained details of the expenditure for which USF support was used and reconciled the expenditure items (equipment or services) to the list of services or equipment approved by USAC for funding during the application process. EY also analyzed transaction data and reviewed a sample of underlying documentation to verify that USF expenditure was adequately supported and did not include any expenditure items i.e. network equipment and services that can be traced to Covered List Companies.

   High Cost
   EY obtained and reviewed evidence of projects completed using USF support and determined whether elements of the project expenditure involved network equipment and services that can be traced to Covered List or companies on the Covered List Companies. EY also analyzed recipients' financial and transactional information (including financial statements, General Ledger accounts for vendor payments, invoices, contracts, work order details) to identify potential transactions (equipment or services described in the Covered List) with Covered List Companies. Finally, EY reviewed the recipient's asset listings and related expense reports documentation and determined whether network elements that are included in the FCC's published Covered List exist.

Additionally, EY obtained the NECA statements and the detailed G/L to reconcile USAC disbursement detail for High Cost funds to the recipient records for the program funding period.

3. **Data analysis of relevant financial records**
   EY obtained general ledger activity files for the funding period. EY conducted key word searches across all relevant G/L details to identify transactions involving the Covered List Companies.

4. **Review of asset records**
   High Cost
   EY obtained the Central Office Equipment (COE) Continuing Property Records (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 was accounted for in the carrier's records. EY performed a key word search of the COE CPRs to obtain reasonable assurance that no links to the Covered List Companies could be identified. EY selected a non-statistical sample of 25 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 companies on the Covered List Companies. EY 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.

   E-Rate
   EY selected out of 14 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, EY obtained the underlying Nuvera bills that support the BEAR/SPI forms that were submitted to USAC for reimbursement. EY reviewed the bills to determine if any equipment was included as part of the Category One services. EY also inquired of Nuvera to understand if any equipment was provisioned to the Beneficiary as part of this service. Nuvera noted no equipment was provisioned to the Beneficiary as part of the Category One service, and Nuvera confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the Nuvera network, which was used to provide the Category One service, as described in the Network Architecture section below.

   RHC
   EY selected six out of six FRN for testing, representing 100% coverage of the disbursed dollars. EY obtained the underlying Nuvera bills that support the FCC Form 463 that were submitted to USAC for reimbursement. EY reviewed the bills for this FRN to determine if any equipment was included as part of the service provided. EY also inquired of Nuvera to understand if any equipment was provisioned to the Beneficiary as part of this service. EY noted equipment was provisioned to the Beneficiary as part of the broadband service provided, and EY confirmed any equipment provided to the Beneficiary was not manufactured by an entity on the Covered List Companies. Additionally, EY confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the Nuvera network, which was used to provide the broadband service, as described in the Network Architecture section below.

5. **Review of open work orders**
EY obtained the open work order listing and determined whether any of the open work orders were included in the CPRs. After EY determined none of the open work orders were included in the CPRs, EY selected the full population of four open work orders. EY obtained and reviewed the underlying work order details to determine whether the equipment and services provided under the work order were from Covered List Companies. obtained and reviewed the underlying invoices provided by the entity for the equipment samples to verify that the equipment was not manufactured by companies on the Covered List Companies. For invoices that didn't have manufacturer information, we received additional details from the vendor to determine the manufacturer.

   The network engineer reviewed the open work orders and supporting documents to confirm the ownership and status of equipment as well as to identify any transactions or equipment from Covered List.

6. **Review of cost study adjustments**
EY obtained and reviewed a listing of cost study adjustments related to the funding period to determine whether costs were removed from the study for services or equipment purchases related to a Covered List Companies or the Covered List.

7. **Review of vendor listing**
EY obtained and reviewed the master vendor listing to determine whether any vendor is affiliated with the Covered List Companies at the population level. EY compared vendor names to the Covered List to determine if services were purchased from a company on the Covered List Companies.

   The network engineer reviewed the vendor listing to determine whether any vendor is affiliated with the Covered List Companies at the population level.

8. **Inventory procedures**
EY obtained detailed inventory listings for additions during the program funding period. EY reconciled the listing to the G/L to validate completeness, reviewed the list and determined, at a population level, whether any purchases were made from a company on the Covered List Companies, or for equipment/services from the Covered List. Additionally, EY selected 25 samples from the inventory listing and obtained and reviewed the underlying invoices provided by the entity to verify that the equipment was not manufactured by a company on the Covered List Companies. For invoices that didn't have manufacturer information, we received additional details from the vendor to determine the manufacturer.

   The network engineer reviewed the inventory listing to identify any transactions with companies on the Covered List Companies.

9. **Network Architecture**
EY obtained and reviewed the network scan report from the audited entity for potential equipment that could be traced back to Covered List Companies or their parents, subsidiaries, or affiliates. EY reviewed the network scan report to identify all telecommunications and video surveillance equipment in use.

EY also obtained and examined the network architecture diagram and supporting information to identify potential additional equipment that could be traced to Covered List Companies or Covered List or retained equipment and network elements which could potentially be serviced, maintained, improved, modified or supported by Covered List Companies or the Covered List. EY reviewed the network architecture diagram to identify the types of equipment used in the access, distribution, and core layers of the network as well as analyze the interconnections between different network components to ensure that no equipment on the Covered List is present.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

EY ’s performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

EY'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 January 1, 2022 to December 31, 2022; the disbursements made from the E-Rate Program from July 1, 2022 to June 30, 2023 and the disbursements made from the RHC Program from January 1, 2022 to June 30, 2023; identified no audit findings.

** This concludes the audit report.**

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Attachment C

SC2024BE007

Eastex Telephone Cooperative, Inc. Audit ID: SC2024BE007

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from January 1, 2022 to December 31, 2022 and E-Rate disbursements made from July 1, 2022 to June 30, 2023

Prepared for: Universal Service Administrative Company

As of Date: August 13, 2025

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The better the answer.
The better the world works.

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Report of Independent Auditors Eastex Telephone Cooperative, Inc. Compliance with Federal Communications Commission's rules related to the Universal Service Fund

August 13, 2025

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 Eastex Telephone Cooperative, Inc. (Universal Service Fund ("USF") Recipient, Study Area Code ("SAC") 442068 or "Eastex") Service Provider Identification Number ("SPIN") 143002423), for disbursements of $18,852,192.00 made from the Universal Service Fund's High Cost Program from January 1, 2022 to December 31, 2022 and disbursements of $125,960.93 made from the E-Rate Program from July 1, 2022 to June 30, 2023. Our work was performed from December 09, 2024, to April 23, 2025 and our results are as of June 30, 2025.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This performance audit did not constitute an audit of financial statements in accordance with auditing standards generally accepted in the United States (US). As such, while this report may be released to the public by Universal Service Administration Co. (USAC) and the Federal Communications Commission's ("FCC") , this report is intended for USAC, the FCC, and the audited entity and is not intended to be nor should it be relied upon by others.

The objective of this performance audit was to evaluate the USF Recipient's compliance with the FCC's *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, rule 47 Code of Federal Regulations (C.F.R.) § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.10 (collectively, the "FCC Rules") relative to disbursements of $18,852,192.00 made from the High Cost Program from January 1, 2022 to December 31, 2022, disbursements of $125,960.93 made from the E-Rate Program from July 1, 2022 to June 30.

Compliance with the 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, Ernst & Young, LLP (EY) did not identify any audit findings as a result of the work performed.

EY cautions that projecting the results of our evaluation to future periods is subject to the risk that conditions at the entity may have changed.

Sincerely,

Ernst + Young LLP

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

TABLE OF CONTENTS

LIST OF ACRONYMS

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
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 List Companies	Huawei Technologies Company, ZTE Corporation, Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, and Dahua Technology Company, and their parents, affiliates, and subsidiaries to the extent they were included on the Covered List for the applicable audit period.
Covered List	A list, published and maintained by the FCC's Public Safety and Homeland Security Bureau, of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States or the security and safety of United States persons.
CPRs	Continuing Property Records
E-Rate	Universal Service Program for Schools and Libraries
EY	Ernst & Young, LLP
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
Eastex (USF Recipient)	Eastex Telephone Cooperative, Inc.

AUDIT RESULTS

EY’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 (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.

In November 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, which prohibits the use of any funds from the USF to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company that pose a national security threat to the integrity of communications networks or the communications supply chain.[1] In this order, the FCC explicitly stated that USF recipients must be able to affirmatively demonstrate that no universal service funds were used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services provided or manufactured by Covered List Companies. In December 2020, the FCC released the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order* to implement the Secure and Trusted Communications Networks Act of 2019.[2] The *Second Report and Order* adopted a rule, codified at 47 C.F.R. § 54.10, which prohibits the use of certain federal subsidies, including USF funds, to purchase, rent, lease, or otherwise obtain any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, identified and published on the "Covered List."[3]

The "Covered List" is a list of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States or the security and safety of United States persons.[4] The FCC's Public Safety and Homeland Security Bureau publishes and maintains the Covered List and may update the list at any time.[5] The current list can be found at https://www.fcc.gov/supplychain/coveredlist. Please note that the scope for this audit was limited to USF support, funds disbursed under the Congressional Response (appropriated) programs were not in scope for this audit.

USAC engaged EY 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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.1,

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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] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs,* WC Docket No. 18-89, Second Report and Order, 35 FCC Rcd 14284 (2020). 47 C.F.R. Section 54.10.

[3] *List of Equipment and Services Covered By Section 2 of The Secure Networks Act | Federal Communications Commission (fcc.gov)*

[4] *Public Safety and Homeland Security Bureau Announces Publication of the List of Equipment and Services Covered by Section 2 of The Secure Networks Act*, WC Docket No. 18-89, Public Notice, DA 21-309 (2021).

[5] 47 CFR 1.50002.

relative to disbursements of $18,852,192.00 made from the High Cost Program from January 1, 2022 to December 31, 2022; disbursements of $ 125,960.93 made from the E-Rate Program from July 1, 2022 to June 30, 2023.

USF Recipient Overview

Eastex (SPIN: 143002423), the subject of this performance audit, is located in Henderson, Texas and does business as Eastex. The USF recipient is a stand-alone entity with its wholly-owned subsidiaries, Telecom Investments, LLC (ETI) and Eastex Celco, LLC (Celco). Eastex is a nonpublic, member owned cooperative that serves as an incumbent local exchange carrier providing regulated landline telecommunications services in East Texas. Celco provides Ethernet backhaul for wireless companies and other entities and provides voice and broadband services in the State of Texas.

High Cost

In the table below, we show the High Cost support disbursed by USAC to the USF Recipient during the twelve-month period from January 1, 2022 to December 31, 2022, by High Cost fund type:

High Cost Fund Type	Amount
CAF BLS	$9,418,506.00
HCL	$7,895,424.00
CAF ICC	$1,538,262.00
TOTAL	**$18,852,192.00**

Source: USAC Open Data

The USF Recipient received High Cost support from January 1, 2022 to December 31, 2022, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

Connect America Fund Intercarrier Compensation (CAF ICC) and Connect America Fund Broadband Loop Support (CAF BLS) funds disbursed in 2022, were based on forms submitted in 2020 that encompass 2020 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 ICC and CAF BLS funds, disbursed in 2022, 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, 2022 to June 30, 2023, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	$125,960.93
	TOTAL	**$125,960.93**

Source: USAC Open Data

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.[6]

OBJECTIVE

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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.1, relative to disbursements of $18,852,192.00 made from the High Cost Program from January 1, 2022 to December 31, 2022; disbursements of $125,960.93 made from the E-Rate Program from July 1, 2022 to June 30, 2023.

SCOPE

The scope of this performance audit included, but was not limited to the reconciliation of USF support received to the USF recipient's underlying financial data and related expenditures, review of the equipment listings, vendor list, inventory list and expense details to identify transactions with details that match with the names of the Covered List Companies; review of internal network diagrams, network vendor transactions and invoices; and physical inspection (where applicable) to determine whether USF funds were used for equipment or services produced or provided by the Covered List Companies.

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

1. Annual supply chain certification review
2. Reconciliation of USF expenditures
3. Data analysis of relevant financial records
4. Review of asset records
5. Review of open work orders
6. Review of cost study adjustments
7. Review of vendor listing
8. Inventory procedures
9. Network architecture review

Our audit did not consider the Company's internal controls related to the FCC Rules because internal controls were not significant within the context of our audit objectives.

PROCEDURES

1. **Annual supply chain certification Review**

   EY obtained the FCC Form 481 and FCC Form 473 filed in respect of 2022 and verified that

[6] *Funding Year 2022 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

For section 54.9, 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.”

For section 54.10 the USF Recipient certified that no Federal subsidy made available through a program administered by the Commission that provides funds to be used for the capital expenditures necessary for the provision of advanced communications services has been or will be used to purchase, rent, lease, or otherwise obtain, any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, as required by 47 C.F.R. § 54.10.

2. **Reconciliation of USF expenditure**
   EY reconciled USF disbursements to recipient records.

   E-Rate
   EY obtained details of the expenditure for which USF support was
   used and reconciled the expenditure items (equipment or services) to the list of services or equipment approved by USAC for funding during the application process. EY also analyzed transaction data and reviewed a sample of underlying documentation to verify that USF expenditure was adequately supported and did not include any expenditure items i.e. network equipment and services that can be traced to Covered List Companies.

   High Cost
   EY obtained and reviewed evidence of projects completed using USF support and determined whether elements of the project expenditure involved network equipment and services that can be traced to Covered List or companies on the Covered List Companies. EY also analyzed recipients’ financial and transactional information (including financial statements, General Ledger accounts for vendor payments, invoices, contracts, work order details) to identify potential transactions (equipment or services described in the Covered List) with Covered List Companies. Finally, EY reviewed the recipient’s asset listings and related expense reports documentation and determined whether network elements that are included in the FCC’s published Covered List exist.

   Additionally, EY obtained the NECA statements and the detailed G/L to reconcile USAC disbursement detail for High Cost funds to the recipient records for the program funding period.

3. **Data analysis of relevant financial records**
   EY obtained general ledger activity files for the funding period. EY conducted key word searches across all relevant G/L details to identify transactions involving the Covered List Companies.

4. **Review of asset records**

High Cost

EY obtained the Central Office Equipment (COE) Continuing Property Records (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 was accounted for in the carrier's records. EY performed a key word search of the COE CPRs to obtain reasonable assurance that no links to the Covered List Companies could be identified. EY selected a non-statistical sample of 20 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 companies on the Covered List Companies. EY 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.

E-Rate

EY selected out of 13 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, EY obtained the underlying Eastex bills that support the BEAR/SPI forms that were submitted to USAC for reimbursement. EY reviewed the bills to determine if any equipment was included as part of the Category One services. EY also inquired of Eastex to understand if any equipment was provisioned to the Beneficiary as part of this service. Eastex noted no equipment was provisioned to the Beneficiary as part of the Category One service, and Eastex confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the Eastex network, which was used to provide the Category One service, as described in the Network Architecture section below.

5. **Review of open work orders**

EY obtained the open work order listing and determined whether any of the open work orders were included in the CPRs. After EY determined none of the open work orders were included in the CPRs, EY selected a non-statistical sample of ten open work orders. EY obtained and reviewed the underlying work order details to determine whether the equipment and services provided under the work order were from Covered List Companies. obtained and reviewed the underlying invoices provided by the entity for the equipment samples to verify that the equipment was not manufactured by companies on the Covered List Companies. For invoices that didn't have manufacturer information, we received additional details from the vendor to determine the manufacturer.

The network engineer reviewed the open work orders and supporting documents to confirm the ownership and status of equipment as well as to identify any transactions or equipment from Covered List.

6. **Review of cost study adjustments**

EY obtained and reviewed a listing of cost study adjustments related to the funding period to determine whether costs were removed from the study for services or equipment purchases related to a Covered List Companies" or the Covered List.

7. **Review of vendor listing**

   EY obtained and reviewed the master vendor listing to determine whether any vendor is affiliated with the Covered List Companies at the population level. EY compared vendor names to the Covered List to determine if services were purchased from a company on the Covered List Companies.

   The network engineer reviewed the vendor listing to determine whether any vendor is affiliated with the Covered List Companies at the population level.

8. **Inventory procedures**

   EY obtained detailed inventory listings for additions during the program funding period. EY reconciled the listing to the G/L to validate completeness, reviewed the list and determined, at a population level, whether any purchases were made from a company on the Covered List Companies, or for equipment/services from the Covered List. Additionally, EY selected 25 samples from the inventory listing and obtained and reviewed the underlying invoices provided by the entity to verify that the equipment was not manufactured by a company on the Covered List Companies. For invoices that didn't have manufacturer information, we received additional details from the vendor to determine the manufacturer.

   The network engineer reviewed the inventory listing to identify any transactions with companies on the Covered List Companies.

9. **Network Architecture**

   EY obtained and reviewed the network scan report from the audited entity for potential equipment that could be traced back to Covered List Companies or their parents, subsidiaries, or affiliates. EY reviewed the network scan report to identify all telecommunications and video surveillance equipment in use.

   EY also obtained and examined the network architecture diagram and supporting information to identify potential additional equipment that could be traced to Covered List Companies or Covered List or retained equipment and network elements which could potentially be serviced, maintained, improved, modified or supported by Covered List Companies or the Covered List. EY reviewed the network architecture diagram to identify the types of equipment used in the access, distribution, and core layers of the network as well as analyze the interconnections between different network components to ensure that no equipment on the Covered List is present.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

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

CONCLUSION

EY'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 January 1, 2022 to December 31, 2022; the disbursements made from the E-Rate Program from July 1, 2022 to June 30, 2023; identified no audit findings.

** This concludes the audit report.**

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Attachment D

SC2024BE005

Consolidated Telephone Company Audit ID: SC2024BE005

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High-Cost Disbursements made from January 1, 2022 to December 31, 2022; E-Rate disbursements made from July 1, 2022 to June 30, 2023; and Rural Health Care disbursements made from July 1, 2022 to June 30, 2023

Prepared for: Universal Service Administrative Company

As of Date: August 8, 2025

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Report of Independent Auditors on Consolidated Telephone Company Compliance with Federal Communications Commission's rules related to the Universal Service Fund

August 8, 2025

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 Consolidated Telephone Company (Universal Service Fund ("USF") Recipient, Study Area Code ("SAC") 361373 and 369044 or "CTC") Service Provider Identification Number ("SPIN") 143002082), for disbursements of $7,928,231.28 made from the Universal Service Fund's High Cost Program from January 1, 2022 to December 31, 2022; disbursements of $150,140.50 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of $147,587.93 made from the Rural Health Care ("RHC") Program from July 1, 2022 to June 30, 2023. Our work was performed from September 05, 2024, to April 04, 2025 and our results are as of June 30, 2025.

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.

This performance audit did not constitute an audit of financial statements in accordance with auditing standards generally accepted in the United States (US). As such, while this report may be released to the public by Universal Service Administration Co. (USAC) and the Federal Communications Commission's (FCC), this report is intended for USAC, the FCC, and the audited entity and is not intended to be nor should it be relied upon by others.

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The objective of this performance audit was to evaluate the USF Recipient's compliance with the FCC *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, rule 47 Code of Federal Regulations (C.F.R.) § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.10 (collectively, the "FCC Rules") relative to disbursements of $7,928,231.28 made from the High Cost Program from January 1, 2022 to December 31, 2022, disbursements of $150,140.50 made from the E-Rate Program from July 1, 2022 to June 30, 2023 and disbursements of $147,587.93 made from the RHC Program from July 1, 2022 to June 30, 2023.

Compliance with the 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, Ernst & Young, LLP (EY) did not identify any audit findings as a result of the work performed.

EY cautions that projecting the results of our evaluation to future periods is subject to the risk that conditions at the entity may have changed.

Sincerely,

Ernst + Young 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

TABLE OF CONTENTS

LIST OF ACRONYMS

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
CAF II 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 List Companies	Huawei Technologies Company, ZTE Corporation, Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, and Dahua Technology Company, and their parents, affiliates, and subsidiaries to the extent they were included on the Covered List for the applicable audit period.
Covered List	A list, published and maintained by the FCC's Public Safety and Homeland Security Bureau, of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States or the security and safety of United States persons.
CPRs	Continuing Property Records
E-Rate	Universal Service Program for Schools and Libraries
EY	Ernst & Young, LLP
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
RHC	Rural Health Care Program
RDOF	Rural Digital Opportunity Fund
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
CTC (USF Recipient)	Consolidated Telephone Company

AUDIT RESULTS

EY'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.

In November 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, which prohibits the use of any funds from the USF to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company that pose a national security threat to the integrity of communications networks or the communications supply chain.[1] In this order, the FCC explicitly stated that USF recipients must be able to affirmatively demonstrate that no universal service funds were used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services provided or manufactured by Covered List Companies. In December 2020, the FCC released the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order* to implement the Secure and Trusted Communications Networks Act of 2019.[2] The *Second Report and Order* adopted a rule, codified at 47 C.F.R. § 54.10, which prohibits the use of certain federal subsidies, including USF funds, to purchase, rent, lease, or otherwise obtain any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, identified and published on the Covered List.[3]

The Covered List is a list of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States or the security and safety of United States persons.[4] The FCC's Public Safety and Homeland Security Bureau publishes and maintains the Covered List and may update the list at any time.[5] The current list can be found at https://www.fcc.gov/supplychain/coveredlist. Please note that the scope for this audit was limited to USF support, funds disbursed under the Congressional Response (appropriated) programs were not in scope for this audit.

USAC engaged EY 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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.1, relative to disbursements of $7,928,231.28 made from the High Cost Program from January 1, 2022 to

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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] *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs,* WC Docket No. 18-89, Second Report and Order, 35 FCC Rcd 14284 (2020). 47 C.F.R. Section 54.10.

[3] *List of Equipment and Services Covered By Section 2 of The Secure Networks Act | Federal Communications Commission (fcc.gov)*

[4] *Public Safety and Homeland Security Bureau Announces Publication of the List of Equipment and Services Covered by Section 2 of The Secure Networks Act*, WC Docket No. 18-89, Public Notice, DA 21-309 (2021).

[5] 47 C.F.R. 1.50002.

December 31, 2022; disbursements of $150,140.50 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of $147,587.93 made from the RHC Program from July 1, 2022 to June 30, 2023.

USF Recipient Overview

CTC (SPIN: 143002082), the subject of this performance audit, is located in Brainerd, Minnesota and does business as CTC. The USF recipient is a stand-alone entity that operates as a cooperative. CTC provides phone, data and internet, voice, data center, security services, and IT services to residential and business members.

High Cost

In the table below, we show the High Cost support disbursed by USAC to the USF Recipient during the twelve-month period from January 1, 2022 to December 31, 2022, by High Cost fund type:

High Cost Fund Type[6]	Amount
CAFII AUC	$93,493.44
CAF BLS	$5,950,440.00
HCL	$1,109,532.00
CAF ICC	$570,738.00
RDOF	$204,027.84
TOTAL	**$7,928,231.28**

Source: USAC Open Data

The USF Recipient received High Cost support from January 1, 2022 to December 31, 2022, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

Connect America Fund Intercarrier Compensation (CAF ICC) and Connect America Fund Broadband Loop Support (CAF BLS) funds disbursed in 2022, were based on forms submitted in 2020 that encompass 2020 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 ICC and CAF BLS funds, disbursed in 2022, 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, 2022 to June 30, 2023, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	$150,140.50
	TOTAL	**$150,140.50**

Source: USAC Open Data

[6] The funds received by CTC are split between two SACs: 361373 and 369044. For funding year 2022, SAC 361373 received the CAF BLS, HCL and CAF ICC funds while SAC 369044 received the CAFII AUC and RDOF funds.

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.[7]

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, 2022 to June 30, 2023, by RHC Program Fund:

RHC Program Fund	Amount
Healthcare Connect Fund	$146,506.73
Telecommunication Program	$1,081.20
TOTAL	**$147,587.93**

Source: USAC Open Data

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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.1, relative to disbursements of $7,928,231.28 made from the High Cost Program from January 1, 2022 to December 31, 2022; disbursements of $150,140.50 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of $147,587.93 made from the RHC Program from July 1, 2022 to June 30, 2023.

SCOPE

The scope of this performance audit included, but was not limited to the reconciliation of USF support received to the USF recipient's underlying financial data and related expenditures, review of the equipment listings, vendor list, inventory list and expense details to identify transactions with details that match with the names of the Covered List Companies; review of internal network diagrams, network vendor transactions and invoices; and physical inspection (where applicable) to determine whether USF funds were used for equipment or services produced or provided by the Covered List Companies.

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

1. Annual supply chain certification review
2. Reconciliation of USF expenditures
3. Data analysis of relevant financial records
4. Review of asset records

[7] *Funding Year 2022 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

5. Review of open work orders
6. Review of cost study adjustments
7. Review of vendor listing
8. Inventory procedures
9. Network architecture review

Our audit did not consider the Company's internal controls related to the FCC Rules because internal controls were not significant within the context of our audit objectives.

PROCEDURES

1. **Annual supply chain certification Review**

   EY obtained the FCC Form 481, FCC Form 463 and FCC Form 473 filed in respect of 2022 and verified that

   For section 54.9, 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."

   For section 54.10 the USF Recipient certified that no Federal subsidy made available through a program administered by the Commission that provides funds to be used for the capital expenditures necessary for the provision of advanced communications services has been or will be used to purchase, rent, lease, or otherwise obtain, any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, as required by 47 C.F.R. § 54.10.

2. **Reconciliation of USF expenditure**

   EY reconciled USF disbursements to recipient records.

   E-Rate and RHC

   EY obtained details of the expenditure for which USF support was used and reconciled the expenditure items (equipment or services) to the list of services or equipment approved by USAC for funding during the application process. EY also analyzed transaction data and reviewed a sample of underlying documentation to verify that USF expenditure was adequately supported and did not include any expenditure items i.e. network equipment and services that can be traced to Covered List Companies.

   High Cost

   EY obtained and reviewed evidence of projects completed using USF support and determined whether elements of the project expenditure involved network equipment and services that can be traced to Covered List or companies on the Covered List companies. EY also analyzed recipients' financial and transactional information (including financial statements, General Ledger accounts for vendor payments, invoices, contracts, work order details) to identify potential transactions (equipment or services described in the Covered List) with Covered List Companies. Finally, EY reviewed the recipient's asset listings and related expense reports documentation and determined whether network elements that are included in the FCC's published Covered List exist. Additionally, we obtained the NECA statements and the detailed G/L to reconcile USAC disbursement detail for High Cost funds to the recipient records for the program funding period.

3. **Data analysis of relevant financial records**

   EY obtained general ledger activity files for the funding period. EY conducted key word searches across all relevant G/L details to identify transactions involving the Covered List Companies.

4. **Review of asset records**

   High Cost

   EY obtained the Central Office Equipment (COE) Continuing Property Records (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 was accounted for in the carrier's records. EY performed a key word search of the COE CPRs to obtain reasonable assurance that no links to the Covered List Companies could be identified. EY selected a non-statistical sample of 25 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 companies on the Covered List Companies. EY 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.

   E-Rate

   EY selected 11 out of 11 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 11 selected FRNs with Category One services, EY obtained the underlying CTC bills that support the BEAR/SPI forms that were submitted to USAC for reimbursement. EY reviewed the bills to determine if any equipment was included as part of the Category One services. EY also inquired of CTC to understand if any equipment was provisioned to the Beneficiary as part of this service. CTC noted no equipment was provisioned to the Beneficiary as part of the Category One service, and CTC confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the CTC network, which was used to provide the Category One service, as described in the Network Architecture section below.

   RHC

   EY selected 23 out of 23 FRN for testing, representing 100% coverage of the disbursed dollars. EY obtained the underlying CTC bills that support the FCC Form 463 that were submitted to USAC for reimbursement. EY reviewed the bills for this FRN to determine if any equipment was included as part of the service provided. EY also inquired of CTC to understand if any equipment was provisioned to the Beneficiary as part of this service. EY noted no equipment was provisioned to the Beneficiary as part of the broadband service provided, and CTC confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the CTC network, which was used to provide the broadband service, as described in the Network Architecture section below.

5. Review of open work orders

EY obtained the open work order listing and determined whether any of the open work orders were included in the CPRs. After EY determined none of the open work orders were included in the CPRs, EY selected a non-statistical sample of 15 work orders. EY obtained and reviewed the underlying work order details to determine whether the equipment and services provided under the work order were from Covered List Companies. obtained and reviewed the underlying invoices provided by the entity for the equipment samples to verify that the equipment was not manufactured by companies on the Covered List Companies. For invoices that didn't have manufacturer information, we received additional details from the vendor to determine the manufacturer.

The network engineer reviewed the open work orders and supporting documents to confirm the ownership and status of equipment as well as to identify any transactions or equipment from Covered List.

6. Review of cost study adjustments

EY obtained and reviewed a listing of cost study adjustments related to the funding period to determine whether costs were removed from the study for services or equipment purchases related to a Covered List Companies or the Covered List.

7. Review of vendor listing

EY obtained and reviewed the master vendor listing to determine whether any vendor is affiliated with the Covered List Companies at the population level. EY compared vendor names to the Covered List to determine if services were purchased from a company on the Covered List Companies.

The network engineer reviewed the vendor listing to determine whether any vendor is affiliated with the Covered List Companies at the population level.

8. Inventory procedures

EY obtained detailed inventory listings for additions during the program funding period. EY reconciled the listing to the G/L to validate completeness, reviewed the list and determined, at a population level, whether any purchases were made from a company on the Covered List Companies, or for equipment/services from the Covered List. Additionally, EY selected 25 samples from the inventory listing and obtained and reviewed the underlying invoices provided by the entity to verify that the equipment was not manufactured by a company on the Covered List Companies. For invoices that didn't have manufacturer information, we received additional details from the vendor to determine the manufacturer.

The network engineer reviewed the inventory listing to identify any transactions with companies on the Covered List Companies.

9. Network Architecture

EY obtained and reviewed the network scan report from the audited entity for potential equipment that could be traced back to Covered List Companies or their parents, subsidiaries, or affiliates. EY reviewed the network scan report to identify all telecommunications and video surveillance equipment in use.

EY also obtained and examined the network architecture diagram and supporting information to identify potential additional equipment that could be traced to Covered List Companies or Covered List or retained equipment and network elements which could potentially be serviced, maintained, improved, modified or supported by Covered List Companies or the Covered List. EY reviewed the network architecture diagram to identify the types of equipment used in the access, distribution, and core layers of the network as well as analyze the interconnections between different network components to ensure that no equipment on the Covered List is present.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

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

CONCLUSION

EY'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 January 1, 2022 to December 31, 2022; the disbursements made from the E-Rate Program from July 1, 2022 to June 30, 2023 and the disbursements made from the RHC Program from July 1, 2022 to June 30, 2023; identified no audit findings.

** This concludes the audit report.**

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Attachment E

SC2024BE003

Duo County Telephone Coop Corporation, Inc.
Audit ID: SC2024BE003

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from January 1, 2022 to December 31, 2022; E-Rate disbursements made from July 1, 2022 to June 30, 2023; and Rural Health Care disbursements made from July 1, 2022 to June 30, 2023

Prepared for: Universal Service Administrative Company

As of Date: August 7, 2025

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Report of Independent Auditors on Duo County Telephone Coop Corporation, Inc. Compliance with Federal Communications Commission's rules related to the Universal Service Fund

August 7, 2025

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 Duo County Telephone Coop Corporation, Inc. (Universal Service Fund ("USF") Recipient, Study Area Code ("SAC") 260401 or "Duo Broadband") Service Provider Identification Number ("SPIN") 143001566), for disbursements of $11,545,590.00 made from the Universal Service Fund's High Cost Program from January 1, 2022 to December 31, 2022; disbursements of $57,942.61 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of $72,738.00 made from the Rural Health Care ("RHC") Program from July 1, 2022 to June 30, 2023. Our work was performed from December 09, 2024, to April 21, 2025 and our results are as of June 30 2025.

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EY cautions that projecting the results of our evaluation to future periods is subject to the risk that conditions at the entity may have changed.

Sincerely,

Ernst + Young 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

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TB	Trial Balance
TPUC	Telecommunications Plant Under Construction
USAC	Universal Service Administrative Company
USF	Universal Service Fund
Duo Broadband (USF Recipient)	Duo County Telephone Coop Corporation, Inc.

AUDIT RESULTS

EY’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.

In November 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, which prohibits the use of any funds from the USF to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company that pose a national security threat to the integrity of communications networks or the communications supply chain.[1] In this order, the FCC explicitly stated that USF recipients must be able to affirmatively demonstrate that no universal service funds were used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services provided or manufactured by Covered List Companies. In December 2020, the FCC released the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order* to implement the Secure and Trusted Communications Networks Act of 2019.[2] The *Second Report and Order* adopted a rule, codified at 47 C.F.R. § 54.10, which prohibits the use of certain federal subsidies, including USF funds, to purchase, rent, lease, or otherwise obtain any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, identified and published on the Covered List.[3]

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USAC engaged EY 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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order,* rule 47 C.F.R. § 54.1,

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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.

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[3] *List of Equipment and Services Covered By Section 2 of The Secure Networks Act | Federal Communications Commission (fcc.gov)*

[4] *Public Safety and Homeland Security Bureau Announces Publication of the List of Equipment and Services Covered by Section 2 of The Secure Networks Act*, WC Docket No. 18-89, Public Notice, DA 21-309 (2021).

[5] 47 CFR 1.50002.

relative to disbursements of $11,545,590.00 made from the High Cost Program from January 1, 2022 to December 31, 2022; disbursements of $ 57,942.61 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of $72,738.00 made from the RHC Program from July 1, 2022 to June 30, 2023.

USF Recipient Overview

Duo Broadband (SPIN: 143001566), the subject of this performance audit, is located in Jamestown, Kentucky and does business as Duo Broadband. The USF recipient is a stand-alone entity with wholly owned subsidiary, Cumberland Cellular LLC; and affiliate, Bluegrass Network LLC. Duo Broadband provides local network services, network access services, and internet services to residential areas and businesses.

High Cost

In the table below, we show the High Cost Loop (HCL) support disbursed by USAC to the USF Recipient during the twelve-month period from January 1, 2022 to December 31, 2022, by High Cost fund type:

High Cost Fund Type	Amount
CAF BLS	$8,663,712.00
HCL	$1,773,420.00
CAF ICC	$1,108,458.00
TOTAL	**$11,545,590.00**

Source: USAC Open Data

The USF Recipient received High Cost support from January 1, 2022 to December 31, 2022, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

Connect America Fund Intercarrier Compensation (CAF ICC) and Connect America Fund Broadband Loop Support (CAF BLS) funds disbursed in 2022, were based on forms submitted in 2020 that encompass 2020 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 ICC and CAF BLS funds, disbursed in 2022, 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, 2022 to June 30, 2023, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	$57,942.61
	TOTAL	**$57,942.61**

Source: USAC Open Data

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.[6]

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, 2022 to June 30, 2023, by RHC Program Fund:

RHC Program Fund	Amount
Healthcare Connect Fund	$67,036.44
Telecommunication Program	$5,701.56
TOTAL	**$72,738.00**

Source: USAC Open Data

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

OBJECTIVE

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*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order*, rule 47 C.F.R. § 54.1, relative to disbursements of $11,545,590.00 made from the High Cost Program from January 1, 2022 to December 31, 2022; disbursements of $57,942.61 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of $72,738.00 made from the RHC Program from July 1, 2022 to June 30, 2023.

SCOPE

The scope of this performance audit included, but was not limited to the reconciliation of USF support received to the USF recipient's underlying financial data and related expenditures, review of the equipment listings, vendor list, inventory list and expense details to identify transactions with details that match with the names of the Covered List Companies; review of internal network diagrams, network vendor transactions and invoices; and physical inspection (where applicable) to determine whether USF funds were used for equipment or services produced or provided by the Covered List Companies.

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

1. Annual supply chain certification review
2. Reconciliation of USF expenditures
3. Data analysis of relevant financial records
4. Review of asset records
5. Review of open work orders

[6] *Funding Year 2022 Eligible Services List,* WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

6. Review of cost study adjustments
7. Review of vendor listing
8. Inventory procedures
9. Network architecture review

Our audit did not consider the Company's internal controls related to the FCC Rules because internal controls were not significant within the context of our audit objectives.

PROCEDURES

1. Annual supply chain certification Review

EY obtained the FCC Form 481, FCC Form 463 and FCC Form 473 filed in respect of 2022 and verified that:

For section 54.9, 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."

For section 54.10 the USF Recipient certified that no Federal subsidy made available through a program administered by the Commission that provides funds to be used for the capital expenditures necessary for the provision of advanced communications services has been or will be used to purchase, rent, lease, or otherwise obtain, any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, as required by 47 C.F.R. § 54.10.

2. Reconciliation of USF expenditure

EY reconciled USF disbursements to recipient records.

E-Rate and RHC

EY obtained details of the expenditure for which USF support was
used and reconciled the expenditure items (equipment or services) to the list of services or equipment approved by USAC for funding during the application process. EY also analyzed transaction data and reviewed a sample of underlying documentation to verify that USF expenditure was adequately supported and did not include any expenditure items i.e. network equipment and services that can be traced to Covered List Companies.

High Cost

EY obtained and reviewed evidence of projects completed using USF support and determined whether elements of the project expenditure involved network equipment and services that can be traced to Covered Listor companies on the Covered List Companies. EY also analyzed recipients' financial and transactional information (including financial statements, General Ledger accounts for vendor payments, invoices, contracts, work order details) to identify potential transactions (equipment or services described in the Covered List) with Covered List Companies. Finally, EY reviewed the recipient's asset listings and related expense reports documentation and determined whether network elements that are included in the FCC's published Covered List exist.

Additionally, EY obtained the NECA statements and the detailed G/L to reconcile USAC disbursement detail for High Cost funds to the recipient records for the program funding period.

3. **Data analysis of relevant financial records**

   EY obtained general ledger activity files for the funding period. EY conducted key word searches across all relevant G/L details to identify transactions involving the Covered List Companies.

4. **Review of asset records**

   High Cost

   EY obtained the Central Office Equipment (COE) Continuing Property Records (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 was accounted for in the carrier's records. EY performed a key word search of the COE CPRs to obtain reasonable assurance that no links to the Covered List Companies could be identified. EY selected a non-statistical sample of 20 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 companies on the Covered List Companies. EY 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.

   E-Rate

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

   RHC

   EY selected 40 out of 40 FRN for testing, representing 100% coverage of the disbursed dollars. EY obtained the underlying Duo Broadband bills that support the FCC Form 463 that were submitted to USAC for reimbursement. EY reviewed the bills for this FRN to determine if any equipment was included as part of the service provided. EY also inquired of Duo Broadband to understand if any equipment was provisioned to the Beneficiary as part of this service. EY noted no equipment was provisioned to the Beneficiary as part of the broadband service provided, and Duo Broadband confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the Duo Broadband network, which was used to provide the broadband service, as described in the Network Architecture section below.

5. **Review of open work orders**

   EY obtained the open work order listing and determined whether any of the open work orders were included in the CPRs. After EY determined none of the open work orders were included in the CPRs, EY selected a non-statistical sample of ten work orders. EY obtained and reviewed the underlying work order details to determine whether the equipment and services provided under the work order were from Covered List Companies, obtained and reviewed the underlying invoices provided by the entity for the equipment samples to verify that the equipment was not manufactured by companies on the Covered List Companies. For invoices that didn't have manufacturer information, we received additional details from the vendor to determine the manufacturer.

   The network engineer reviewed the open work orders and supporting documents to confirm the ownership and status of equipment as well as to identify any transactions or equipment from Covered List.

6. **Review of cost study adjustments**

   EY obtained and reviewed a listing of cost study adjustments related to the funding period to determine whether costs were removed from the study for services or equipment purchases related to a Covered List Companies or the Covered List.

7. **Review of vendor listing**

   EY obtained and reviewed the master vendor listing to determine whether any vendor is affiliated with the Covered List Companies at the population level. EY compared vendor names to the Covered List to determine if services were purchased from a company on the Covered List Companies.

   The network engineer reviewed the vendor listing to determine whether any vendor is affiliated with the Covered List Companies at the population level.

8. **Inventory procedures**

   EY obtained detailed inventory listings for additions during the program funding period. EY reconciled the listing to the G/L to validate completeness, reviewed the list and determined, at a population level, whether any purchases were made from a company on the Covered List Companies, or for equipment/services from the Covered List. Additionally, EY selected ten samples from the inventory listing and obtained and reviewed the underlying invoices provided by the entity to verify that the equipment was not manufactured by a company on the Covered List Companies. For invoices that didn't have manufacturer information, we received additional details from the vendor to determine the manufacturer.

   The network engineer reviewed the inventory listing to identify any transactions with companies on the Covered List Companies.

9. **Network Architecture**

EY obtained and reviewed the network scan report from the audited entity for potential equipment that could be traced back to Covered List Companies or their parents, subsidiaries, or affiliates. EY reviewed the network scan report to identify all telecommunications and video surveillance equipment in use.

EY also obtained and examined the network architecture diagram and supporting information to identify potential additional equipment that could be traced to Covered List Companies or Covered List or retained equipment and network elements which could potentially be serviced, maintained, improved, modified or supported by Covered List Companies or the Covered List. EY reviewed the network architecture diagram to identify the types of equipment used in the access, distribution, and core layers of the network as well as analyze the interconnections between different network components to ensure that no equipment on the Covered List is present.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

EY ’s performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

EY'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 January 1, 2022 to December 31, 2022; the disbursements made from the E-Rate Program from July 1, 2022 to June 30, 2023 and the disbursements made from the RHC Program from July 1, 2022 to June 30, 2023; identified no audit findings.

** This concludes the audit report.**

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