



Board of Directors

Supply Chain Audit Reports

Briefing Book

Tuesday, January 27, 2026

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: September 2025.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment A Badlands Cellular of North Dakota Limited Partnership	0	• Not applicable.	\$2,435,340	\$0	\$0	N/A
Attachment B Ben Lomand Rural Telephone Cooperative	0	• Not applicable.	\$11,026,236	\$0	\$0	N/A
Attachment C Valley Telephone Cooperative, Inc.	0	• Not applicable.	\$11,411,088	\$0	\$0	N/A
Attachment D Conterra Ultra Broadband Holding Inc.	0	• Not applicable.	\$3,667,076	\$0	\$0	N/A
Attachment E Pasadena Independent School District	0	• Not applicable.	\$494,619	\$0	\$0	N/A
Attachment F Brazoria Tel Co.	0	• Not applicable.	\$8,923,199	\$0	\$0	N/A

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment G Northeast Missouri Rural Telephone Company	0	<ul style="list-style-type: none"> Not applicable. 	\$7,519,777	\$0	\$0	N/A
Attachment H Palmetto Rural Telephone Cooperative, Inc.	0	<ul style="list-style-type: none"> Not applicable. 	\$9,651,006	\$0	\$0	N/A
Total	0		\$55,128,341	\$0	\$0	

INFO Item: Audit Released September 2025
Attachment A
1/27/2026

Attachment A

SC2024BE008

*Badlands Cellular of North Dakota Limited
Partnership Audit ID: SC2024BE008*

*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 21, 2025



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Report of Independent Auditors on Badlands Cellular of North Dakota Limited Partnership Compliance with Federal Communications Commission's rules related to the Universal Service Fund

August 21, 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 Badlands Cellular of North Dakota Limited Partnership (Universal Service Fund (“USF”) Recipient, Study Area Code (“SAC”) 389009 or “Badlands”) Service Provider Identification Number (“SPIN”) 143034844), for disbursements of \$2,435,340.00 made from the Universal Service Fund’s High Cost Program from January 1, 2022 to December 31, 2022. Our work was performed from September 03, 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 \$2,435,340.00 made from the High Cost Program from January 1, 2022 to December 31, 2022

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

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LIST OF ACRONYMS

Acronym	Definition
FHCS	Frozen High Cost Support
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
G/L	General Ledger
SAC	Study Area Code
TB	Trial Balance
USAC	Universal Service Administrative Company
USF	Universal Service Fund
Badlands (USF Recipient)	Badlands Cellular of North Dakota Limited Partnership

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,

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 \$2,435,340.00 made from the High Cost Program from January 1, 2022 to December 31, 2022.

USF Recipient Overview

Badlands (SPIN: 143034844), the subject of this performance audit, is located in Basking Ridge, New Jersey, and does business as CommNet Cellular Inc. The USF recipient is a stand-alone entity with Verizon Wireless. Badlands provides wireless communication services and internet services.

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
FHCS	\$2,435,340.00
TOTAL	\$2,435,340.00

Source: USAC

The USF Recipient received Frozen High Cost Support (FHCS) from January 1, 2022 to December 31, 2022, based on legacy funds driven by historical data.

Frozen High Cost Support (FHCS) 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). FHCS funds, disbursed in 2022, were based on the FCC support authorization public notice and subject to deployment obligations.

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient’s compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, 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 \$2,435,340.00 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 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. Review of asset records
4. Review of vendor listing

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 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.

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.

3. Review of asset records

High Cost

EY obtained the Central Office Equipment (COE) Continuing Property Records (CPRs) for the six projects that used the High Cost funds and reconciled the amounts to the Trial Balance or G/L 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.

4. 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.

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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INFO Item: Audit Released September 2025
Attachment B
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Attachment B

SC2024BE004

Ben Lomand Rural Telephone Cooperative
Audit ID: SC2024BE004

*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: September 11, 2025



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Report of Independent Auditors on Ben Lomand Rural Telephone Cooperative Compliance with Federal Communications Commission's rules related to the Universal Service Fund

September 11, 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 Ben Lomand Rural Telephone Cooperative (Universal Service Fund (“USF”) Recipient, Study Area Code (“SAC”) 290553 or “BLRTC”) Service Provider Identification Number (“SPIN”) 143001624), for disbursements of \$11,019,468.00 made from the Universal Service Fund’s High Cost Program from January 1, 2022 to December 31, 2022; disbursements of \$4,162.70 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of \$2,604.97 made from the Rural Health Care (“RHC”) Program from July 1, 2022 to June 30, 2023. Our work was performed from August 08, 2024, to July 25, 2025 and our results are as of September 11, 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 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 \$11,019,468.00 made from the High Cost Program from January 1, 2022 to December 31, 2022, disbursements of \$4,162.70 made from the E-Rate Program from July 1, 2022 to June 30, 2023 and disbursements of \$2,604.97 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: Michelle Garber, USAC Interim 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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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 Inter-carrier Compensation
C.F.R.	Code of Federal Regulations
COE	Central Office Equipment
Covered 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
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
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
BLRTC(USF Recipient)	Ben Lomand Rural Telephone Cooperative

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 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, relative to disbursements of \$11,019,468.00 made from the High Cost Program from January 1, 2022 to

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](https://www.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 \$ 4,162.70 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of \$2,604.97 made from the RHC Program from July 1, 2022 to June 30, 2023.

USF Recipient Overview

BLRTC (SPIN: 143001624), the subject of this performance audit, is located in McMinnville, Tennessee. BLRTC, provides internet, phone, security and monitoring, and voice 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 ⁶	Amount
CAF BLS	\$8,564,436.00
HCL	\$1,557,840.00
CAF ICC	\$897,192.00
TOTAL	\$11,019,468.00

Source: USAC

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 Inter-carrier 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	\$4,162.70
	TOTAL	\$4,162.70

Source: USAC

E-Rate Category One includes the services needed to support broadband connectivity to schools and libraries. Data transmission and/or Internet access services are eligible in Category One.⁷

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

RHC

In the table below, we show the RHC support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2022 to June 30, 2023, by RHC Program Fund:

RHC Program Fund	Amount
Healthcare Connect Fund	\$2,604.97
TOTAL	\$2,604.97

Source: USAC

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

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient’s compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, 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 \$11,019,468.00 made from the High Cost Program from January 1, 2022 to December 31, 2022; disbursements of \$4,162.70 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of \$2,604.97 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. 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 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 can be traced to Covered Companies or companies on the covered list. 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 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 list of communication equipment and services from Covered Companies 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 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 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 the Covered 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 six 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 BLRTC 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 BLRTC to understand if any equipment was provisioned to the Beneficiary as part of this service. BLRTC noted no equipment was provisioned to the Beneficiary as part of the Category One service, and BLRTC confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the BLRTC network, which was used to provide the Category One service, as described in the Network Architecture section below.

RHC

EY selected two out of two FRN for testing, representing 100% coverage of the disbursed dollars. EY obtained the underlying BLRTC 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 BLRTC 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 BLRTC confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the BLRTC 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 25 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 Companies. EY obtained and reviewed the underlying invoices provided by the entity for the equipment samples 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 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 Company" 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. EY 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. 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 the list of "Covered 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 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

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.

EY 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; 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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INFO Item: Audit Released September 2025
Attachment C
1/27/2026

Attachment C

SC2024BE009

Valley Telephone Cooperative, Incorporated
Audit ID: SC2024BE009

*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: September 12, 2025



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

September 12, 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 Valley Telephone Cooperative Inc. (Universal Service Fund ("USF") Recipient, Study Area Code ("SAC") 442159 or "VTCP") Service Provider Identification Number ("SPIN") 143002460), for disbursements of \$11,406,228.00 made from the Universal Service Fund's High Cost Program from January 1, 2022 to December 31, 2022 and disbursements of \$4,860.00 made from the E-Rate Program from July 1, 2022 to June 30, 2023. Our work was performed from September 05, 2024, to April 21, 2025 and our results are as of September 12, 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 \$11,406,228.00 made from the High Cost Program from January 1, 2022 to December 31, 2022, and disbursements of \$4,860 made from the E-Rate 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: Michelle Garber, USAC Interim Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division
Craig Davis, USAC Vice President, E- Rate Division

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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 Inter-carrier 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
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
RHC	Rural Health Care
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
VTCL	Valley 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 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, relative to disbursements of \$11,406,228.00 made from the High Cost Program from January 1, 2022 to

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](https://www.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 and disbursements of \$4,860 made from the E-Rate Program from July 1, 2022 to June 30, 2023.

USF Recipient Overview

Valley Telephone Cooperative, Inc., (SPIN: 143002460), the subject of this performance audit, is located in Raymondville, Texas, operates as a cooperative, and provides phone and internet 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	Amount
CAF BLS	\$5,849,022.00
HCL	\$5,238,780.00
CAF ICC	\$318,426.00
TOTAL	\$11,406,228.00

Source: USAC

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 Inter-carrier 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	\$4,860
	TOTAL	\$4,860

Source: USAC

E-Rate Category One includes the services needed to support broadband connectivity to schools and libraries. Data transmission and/or Internet access services are eligible in Category One.⁶

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

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, 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 \$11,406,228.00 made from the High Cost Program from January 1, 2022 to December 31, 2022 and disbursements of \$4,860 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

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 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 Companies or companies on the covered list. 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 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 list of communication equipment and services from Covered Companies 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 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 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 the Covered 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 1 out of 1 Funding Request Number 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 1 selected FRN with Category One services, EY obtained the underlying VTCI bill that support the BEAR/SPI form that was submitted to USAC for reimbursement. EY reviewed the bill to determine if any equipment was included as part of the Category One services. EY also inquired of VTCI to understand if any equipment was provisioned to the Beneficiary as part of this service. VTCI noted no equipment was provisioned to the Beneficiary as part of the Category One service, and VTCI confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the VTCI 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 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 Companies. obtained and reviewed the underlying invoices provided by the entity for the equipment samples 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 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 Company" 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. EY 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. 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 the list of "Covered 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 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

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.

EY 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 and 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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INFO Item: Audit Released September 2025
Attachment D
1/27/2026

Attachment D

SC2024BE010

Conterra Ultra Broadband Holdings Inc.
Audit ID: SC2024BE010

*Performance audit for the Universal Service Fund
Supply Chain Audit Program related to 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: September 12, 2025



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Report of Independent Auditors on Conterra Ultra Broadband Holdings Inc. Compliance with Federal Communications Commission's rules related to the Universal Service Fund

September 12, 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 Conterra Ultra Broadband Holdings Inc. (Universal Service Fund ("USF") Recipient "Detel Wireless") Service Provider Identification Number ("SPIN") 143026277), disbursements of \$3,592,681.80 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of \$74,394.31 made from the Rural Health Care ("RHC") Program from July 1, 2022 to June 30, 2023. Our work was performed from January 13, 2025, to June 17, 2025 and our results are as of September 12, 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 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 \$3,592,681.80 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of \$74,394.31 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,

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

cc: Michelle Garber, USAC Interim Chief Executive Officer
Craig Davis, USAC Vice President, E- Rate Division
Mark Sweeney, USAC Vice President, Rural Health Care Division

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LIST OF ACRONYMS

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
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
EY	Ernst & Young, LLP
FCC	Federal Communications Commission
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
RDOF	Rural Digital Opportunity Fund
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
Detel Wireless(USF Recipient)	Conterra Ultra Broadband Holdings 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 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*

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](https://www.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.

Communications Supply Chain Through FCC Programs Second Report and Order, rule 47 C.F.R. § 54.10, relative to disbursements of \$3,592,681.80 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of \$74,394.31 made from the RHC Program from July 1, 2022 to June 30, 2023.

USF Recipient Overview

Detel Wireless (SPIN: 143026277), the subject of this performance audit, is located in Charlotte, North Carolina and does business as Detel Wireless. The USF recipient is wholly owned by Conterra Ultra Broadband Holdings, Inc. Conterra Ultra Broadband Holdings, Inc wholly owns the following subsidiaries: Conterra Ultra Broadband, LLC, Conterra Wireless Broadband, LLC, Conterra Broadband Inter-Mountain, LLC, Detel Wireless, LLC, Broadplex, LLC, Sun America, LLC, Network USA, LLC and Tim Ron Enterprises, LLC. Detel Wireless primarily provides fiber and microwave based, high-speed broadband connections, voice services and wide area networks to education, healthcare, business and carrier customers under long-term service contracts. The Company primarily provides its services in under-served communities in rural areas throughout the United States of America, as well as Tier II and Tier III metro areas.

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	\$3,592,681.80
	TOTAL	\$3,592,681.80

Source: USAC

E-Rate Category One includes the services needed to support broadband connectivity to schools and libraries. Data transmission and/or Internet access services are eligible in Category One.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	\$74,394.31
TOTAL	\$74,394.31

Source: USAC

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

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the*

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

Communications Supply Chain Through FCC Programs Second Report and Order, rule 47 C.F.R. § 54.10, relative to disbursements of \$3,592,681.80 made from the E-Rate Program from July 1, 2022 to June 30, 2023; and disbursements of \$74,394.31 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 vendor listing
6. Inventory Procedures
7. 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 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 Companies.

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

E-Rate

EY selected 33 out of 33 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 33 selected FRNs with Category One services, EY obtained the underlying Detel Wireless 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 Detel Wireless to understand if any equipment was provisioned to the Beneficiary as part of this service. Detel Wireless noted no equipment was provisioned to the Beneficiary as part of the Category One service, and Detel Wireless confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the Detel Wireless network, which was used to provide the Category One service, as described in the Network Architecture section below.

RHC

EY selected four out of four FRN for testing, representing 100% coverage of the disbursed dollars. EY obtained the underlying Detel Wireless 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 Detel Wireless 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 Detel Wireless confirmed any equipment used to provide the service was included in the network documentation provided. EY reviewed the Detel Wireless network, which was used to provide the broadband service, as described in the Network Architecture section below.

5. 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. EY 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.

6. 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 the list of "Covered 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 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.

7. Equipment procedures

EY obtained a detailed network equipment listing. EY 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, EY selected 25 samples from the network equipment 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.

8. Network Architecture

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.

EY 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 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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INFO Item: Audit Released September 2025
Attachment E
1/27/2026

Attachment E

SC2024BE012

*Pasadena Independent School District
Audit ID: SC2024BE012*

*Performance audit for the Universal Service Fund
Supply Chain Audit Program related to E-Rate
disbursements made from July 1, 2022 to
June 30, 2023*

Prepared for: Universal Service Administrative Company

As of Date: September 16, 2025



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The better the answer.
The better the world works.



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**Report of Independent Auditors on Pasadena Independent School District
Compliance with Federal Communications Commission's rules related to the
Universal Service Fund**

September 16, 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 Pasadena Independent School District (Universal Service Fund (“USF”) Recipient, or “PISD”) (Billed Entity Number (BEN) 141312), for disbursements of \$494,618.81 made from the E-Rate Program from July 1, 2022 to June 30, 2023. Our work was performed from September 05, 2024, to June 17, 2025 and our results are as of September 16, 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.



**Shape the future
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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 \$494,618.81 made from the E-Rate 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,

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

cc: Michelle Garber, USAC Interim Chief Executive Officer
Craig Davis, USAC Vice President, E- Rate Division

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LIST OF ACRONYMS

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
BEN	Billed Entity Number
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
EY	Ernst & Young, LLP
FCC	Federal Communications Commission
FCC Form 473	Service Provider Annual Certification Form
FRN	Funding Request Number
G/L	General Ledger
RHC	Rural Health Care
SPI	Service Provider Invoice form submitted for E-Rate reimbursement
TB	Trial Balance
USAC	Universal Service Administrative Company
USF	Universal Service Fund
PISD	Pasadena Independent School District

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 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*

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](https://www.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.

Communications Supply Chain Through FCC Programs Second Report and Order, rule 47 C.F.R. § 54.10, relative to disbursements of \$494,618.81 made from the E-Rate Program from July 1, 2022 to June 30, 2023.

USF Recipient Overview

PISD (BEN: 141312), the subject of this performance audit, is located in Pasadena, Texas. The USF recipient is a school district that applied for data transission, internet access, and internal connection services.

In the table below, we show the E-Rate support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 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	\$494,618.81
	TOTAL	\$494,618.81

Source: USAC

E-Rate Category One includes the services needed to support broadband connectivity to schools and libraries. Data transmission and/or Internet access services are eligible in Category One.⁶

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. § 54.10, relative to disbursements of \$494,618.81 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. 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.

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

PROCEDURES

1. Annual supply chain certification Review

EY obtained the 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

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 Companies.

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*E-Rate*

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

5. Network Architecture

EY obtained and reviewed a diagram showing network components from the audited entity for stand-out concerning items that could be traced back to "Covered Companies" or their parents, subsidiaries, or affiliates.

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 E-Rate Program from July 1, 2022 to June 30, 2023 identified no audit findings.

** This concludes the audit report. **

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INFO Item: Audit Released September 2025
Attachment F
1/27/2026

Attachment F

SC2024BE015

Brazoria Tel Co
Audit ID: SC2024BE015

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from January 1, 2023 to December 31, 2023; E-Rate disbursements made from July 1, 2023 to June 30, 2024; and Rural Health Care disbursements made from July 1, 2023 to June 30, 2024

Prepared for: Universal Service Administrative Company

As of Date: September 9, 2025

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EXECUTIVE SUMMARY

September 9, 2025

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 Brazoria Tel Co (Universal Service Fund (“USF”) Recipient) with Service Provider Identification Number (“SPIN”) 143002410, for disbursements of \$8,864,811 made from the Universal Service Fund’s High Cost Program from January 1, 2023 to December 31, 2023; disbursements of \$56,411 made from the E-Rate Program from July 1, 2023 to June 30, 2024; and disbursements of \$1,977 made from the Rural Health Care (“RHC”) Program from July 1, 2023 to June 30, 2024. Our work was performed from May 6, 2025 to July 18, 2025, and our results are as of September 9, 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.

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

The objective of this performance audit was to evaluate the USF Recipient’s compliance with the Federal Communications Commission’s (“FCC”) *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, 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 (collectively, the “FCC Rules”) relative to disbursements of \$8,864,811 made from the High Cost Program from January 1, 2023 to December 31, 2023, disbursements of \$56,411 made from the E-Rate Program from July 1, 2023 to June 30, 2024 and disbursements of \$1,977 made from the RHC Program from July 1, 2023 to June 30, 2024.

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, Baker Tilly US, LLP did not identify any audit findings as a result of the work performed.

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

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

Sincerely,

Baker Tilly US, LLP

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

List of Acronyms

Acronym	Definition
Beneficiary	School, Library or Rural Health Care Facility that received equipment or services from the Service Provider which is the subject of this audit
C.F.R.	Code of Federal Regulations
CAF-BLS	Connect America Fund Broadband Loop Support
CAF-ICC	Connect America Fund Intercarrier Compensation
COE	Central Office Equipment
Covered Companies	AO Kaspersky Lab, China Mobile International USA Inc., China Telecom (Americas) Corp., Pacific Networks Corp., Comnet (USA) LLC., China Unicom (Americas) Operations Ltd., 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 460	Rural Health Care Universal Service Eligibility and Registration Form
FRN	Funding Request Number
G/L	General Ledger
HCL	High Cost Loop
BTel or USF Recipient	Brazoria Tel Co
RHC	Rural Health Care
TPUC	Telephone Plant Under Construction
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Baker Tilly US, LLP'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 Federal Communications Commission ("FCC") released the Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Report and Order adopting a rule (47 C.F.R. § 54.9)¹ which prohibits the use of any funds from the Universal Services Fund ("USF") to support, purchase, obtain, maintain, improve, modify, or otherwise support equipment or services produced or provided by companies found to pose a national security threat to the integrity of communications networks or the communications supply chain. In December 2020, the FCC released the Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order adopting a rule (47 C.F.R. § 54.10)² to implement the Secure and Trusted Communications Networks Act of 2019, which prohibits prospective 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 on the FCC issued "Covered List", released on March 12, 2021³ (and updated as needed). The "Covered List" is a list of covered communications equipment and services that pose an unacceptable risk to the national security of the United States. The FCC may update the list at any time. The list can be found at fcc.gov/supplychain/coveredlist Please note that the scope for this requirement will be limited to USF support, funds disbursed under appropriated programs will not be in scope.

USAC engaged Baker Tilly US LLP 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 \$8,864,811 made from the High Cost Program from January 1, 2023 to December 31, 2023; disbursements of \$56,411 made from the E-Rate Program from July 1, 2023 to June 30, 2024; and disbursements of \$1,977 made from the RHC Program from July 1, 2023 to June 30, 2024.

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, Report and Order, Further Notice of Proposed Rulemaking, and Order, 34 FCC Rcd 11423 (2019); 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)

USF Recipient Overview

Brazoria Tel Co (SPIN: 143002410), the subject of this performance audit, is located in Brazoria, Texas and does business as Brazoria Tel Co. The beneficiary has two subsidiaries, BTC Enterprises and Coastal Link Communications, LLC. Brazoria Tel Co, provides telecommunication services including telephone, video, and internet.

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, 2023 to December 31, 2023, by High Cost fund type:

High Cost Fund Type	Amount
CAF BLS	\$7,451,152
HCL	\$982,571
CAF ICC	\$431,088
TOTAL	\$8,864,811

Source: USAC open data

The USF Recipient received High Cost support from January 1, 2023 to December 31, 2023, based on legacy funds driven by historical data.

HCL, CAF ICC, and CAF BLS funds disbursed in 2023, were based on forms submitted in 2021 that encompass 2021 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).

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, 2023 to June 30, 2024, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	\$56,411
	TOTAL	\$56,411

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.

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, 2023 to June 30, 2024, by RHC Program Fund:

RHC Program Fund	Amount
Healthcare Connect Fund	\$1,977
TOTAL	\$1,977

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 \$8,864,811 made from the High Cost Program from January 1, 2023 to December 31, 2023; disbursements of \$56,411 made from the E-Rate Program from July 1, 2023 to June 30, 2024; and disbursements of \$1,977 made from the RHC Program from July 1, 2023 to June 30, 2024.

SCOPE

The scope of this performance audit included, but was not limited to, reconciliation of USF support received to the USF Recipient’s underlying financial data, review of the Continuing Property Records (“CPRs”) and G/L details; including the use of an audit software platform to perform searches of the memo and description fields in the G/L detail to identify transactions with details that match the names of Covered companies; review of internal network diagrams and internal scan outputs, if available; review of vendor policies, approved vendors, network vendor transactions and invoices; and physical inspection to determine whether USF funds were used for equipment or services produced or provided by the Covered Companies. The scope of our work relates to disbursements made from the High-Cost Program from January 1, 2023, to December 31, 2023; disbursements made from the E-Rate Program from July 1, 2023, to June 30, 2024; and disbursements made from the RHC Program from July 1, 2023, to June 30, 2024.

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

- 1. Annual Supply Chain Certification
- 2. Reconciliation of USF expenditure
- 3. Asset Records
- 4. Data Analysis
- 5. Network Architecture

PROCEDURES

1. Annual Supply Chain Certification

Baker Tilly obtained the FCC Form 473 filed in respect of funding year 2023 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 Federal Communications Commission as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations.”

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

Baker Tilly reconciled USF disbursements to recipient records.

E-Rate and RHC

Baker Tilly 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. Baker Tilly 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 for equipment and services that can be traced to Covered Companies.

High Cost

Baker Tilly obtained and reviewed evidence of projects completed using USF support and determined whether elements of the project expenditures involved network equipment and services that can be traced to Covered Companies or companies on the covered list. Baker Tilly also analyzed USF 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 Companies. Finally, Baker Tilly reviewed recipient asset listings and related expense report documentation and determined whether network elements that are included in FCC's published list of communication equipment and services from Covered Companies exist.

3. Asset Records

High Cost

Baker Tilly obtained the COE CPRs and reconciled the amounts to the Trial Balance or G/L for accounts 2210 (Digital Electronic Switching) and 2232 (Circuit Equipment) to ensure all telecommunications network equipment was accounted for in the carrier's records. Baker Tilly performed a key word search of the COE CPRs to obtain reasonable assurance that no links to the Covered Companies could be identified. Baker Tilly selected a non-statistical sample of 70 assets and requested supporting invoices to verify that the equipment detail in the invoices matched the CPR details and that no equipment or services were produced or provided by the Covered Companies. Baker Tilly also searched the G/L for the TPUC account which would have any work-in-progress items that had yet been added to the CPRs. Baker Tilly noted Brazoria Tel Co had an open balance for TPUC in the 2023 G/L. Baker Tilly obtained the work-in-progress listing and reconciled the total to the Trial Balance or GL account for TPUC accounts 2003, 2008, and 2009 to ensure that it was a complete listing. Baker Tilly randomly selected 35 work-in-progress items and requested detail listings of them to verify that no equipment or services were produced or provided by the Covered List Companies.

E-Rate

Baker Tilly selected three FRNs for testing which represented 100% of the E-Rate disbursements and also represented each type of service that was funded for the audit period.

For the three selected FRNs with Category One services, Baker Tilly obtained the underlying Brazoria Tel Co application forms that were submitted to USAC for reimbursement. Baker Tilly reviewed the applications to determine no equipment was included as part of the Category One services. Baker Tilly also inquired of Brazoria Tel Co to understand if any equipment was provisioned to the Beneficiary as part of this service. Baker Tilly noted no equipment was provisioned to the Beneficiary as part of the Category One service, and Brazoria Tel Co confirmed any equipment used to provide the service was included in the network documentation provided. Baker Tilly reviewed the Brazoria Tel Co network, which was used to provide the Category One service, as described in the Network Architecture section below.

Baker Tilly noted no Category Two services were provided by Brazoria Tel Co.

RHC

USF Recipient had no separate accounting for inventory, materials, supplies, or construction activities as of June 30, 2024, for projects funded with RHC funds, therefore, Baker Tilly did not select any items related specifically to RHC. Instead, Baker Tilly reviewed the work order invoice detail to identify potential transactions with Covered Companies in addition to testing expense distributions and invoice sampling for selected expense accounts.

4. Data Analysis

Baker Tilly obtained general ledger activity for the funding periods. Baker Tilly imported the general ledger files into an audit software platform (MindBridge) and performed searches on the memo and description sections of the general ledger detail to verify that there were no transactions with details that matched the names of the Covered List Companies.

5. Network Architecture

Baker Tilly reviewed network diagrams and conducted a physical inspection of Brazoria Tel Co's assets to validate the physical existence of network assets at four central office locations, including the primary central office of the network, and to confirm that the manufacturer and model in the CPR details provided matched the equipment in service. Baker Tilly reviewed the CPR details and physical network assets to verify that key identifiers such as asset manufacturer, vendor and model could not be traced to Covered List Companies. In addition to the CPR, Baker Tilly also obtained a network asset listing from Brazoria Tel Co. Baker Tilly reviewed this network asset listing as well to obtain reasonable assurance that no assets could be traced to Covered Companies.

RESULTS

FINDINGS, RECOMMENDATIONS, AND USF RECIPIENT RESPONSES

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

CONCLUSION

Baker Tilly'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, 2023 to December 31, 2023; the disbursements made from the E-Rate Program from July 1, 2023 to June 30, 2024 and the disbursements made from the RHC Program from July 1, 2023 to June 30, 2024; identified no audit findings.

****This concludes the audit report.****

INFO Item: Audit Released September 2025
Attachment G
1/27/2026

Attachment G

SC2024BE013

Northeast Missouri Rural Telephone Company

Audit ID: SC2024BE013

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from January 1, 2023 to December 31, 2023 and Rural Health Care disbursements made from July 1, 2023 to June 30, 2024.

Prepared for: Universal Service Administrative Company

As of Date: September 18, 2025

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EXECUTIVE SUMMARY

September 18, 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 Northeast Missouri Rural Telephone Company (Universal Service Fund (“USF”) Recipient) with Service Provider Identification Number (“SPIN”) 143002356 or “NEMR”, for disbursements of \$7,515,331 made from the Universal Service Fund’s High Cost Program from January 1, 2023 to December 31, 2023 and disbursements of \$4,446 made from the Rural Health Care (“RHC”) Program from July 1, 2023 to June 30, 2024. Our work was performed from June 9, 2025 to July 28, 2025 and our results are as of September 18, 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.

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

The objective of this performance audit was to evaluate the USF Recipient’s compliance with the Federal Communications Commission’s (“FCC”) rule 47 C.F.R. § 54.9 and 47 C.F.R. § 54.10 (collectively, the “FCC Rules”) relative to disbursements of \$7,515,331 made from the Universal Service Fund’s High Cost Program from January 1, 2023 to December 31, 2023 and disbursements of \$4,446 made from the Rural Health Care (“RHC”) Program from July 1, 2023 to June 30, 2024.

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, Baker Tilly US, LLP did not identify any audit findings as a result of the work performed.

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

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

Sincerely,

Baker Tilly US, LLP

cc: Michelle Garber, USAC Interim Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division
Mark Sweeney, USAC Vice President, Rural Health Care Division

List of Acronyms

Acronym	Definition
Beneficiary	School, Library or Rural Health Care Facility that received equipment or services from the Service Provider which is the subject of this audit
BMIC	Basic Maintenance of Internal Connections
CAF-BLS	Connect America Fund Broadband Loop Support
CAF-ICC	Connect America Fund Inter-carrier Compensation
C.F.R.	Code of Federal Regulations
CLLI	Common Language Location Identifier
COE	Central Office Equipment
Covered List Companies	AO Kaspersky Lab, China Mobile International USA Inc., China Telecom (Americas) Corp., Pacific Networks Corp., Comnet (USA) LLC., China Unicom (Americas) Operations Ltd., 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 463	Rural Healthcare Invoice to USAC for Reimbursement
FCC Form 481	Carrier Annual Reporting Data Collection Form
FRN	Funding Request Number
G/L	General Ledger
HCL	High Cost Loop
NMS	Network Management Software
NEMR or USF Recipient	Northeast Missouri Rural Telephone Company
RDOF	Rural Digital Opportunity Fund
RHC	Rural Health Care
SAC	Study Area Code
TPUC	Telephone Plant Under Construction
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Baker Tilly US, LLP's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

On November 22, 2019, the Federal Communications Commission ("FCC") adopted the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, which adopted a rule, codified at 47 C.F.R. § 54.9, which prohibits the use of any funds from the Universal Service Fund ("USF") to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company posing a national security threat to the integrity of communications networks or the communications supply chain.¹ On December 10, 2020, the FCC adopted 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, including by updating the list as needed from time to 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 appropriated programs were not in scope.

USAC engaged Baker Tilly US LLP 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, relative to disbursements of \$7,515,331 made from the Universal Service Fund's High Cost Program from January 1, 2023 to December 31, 2023 and disbursements of \$4,446 made from the Rural Health Care ("RHC") Program from July 1, 2023 to June 30, 2024.

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).

³ 47 C.F.R. Section 54.10.

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.

USF Recipient Overview

Northeast Missouri Rural Telephone Company (SPIN: 143002356), the subject of this performance audit, is located in Green City, Missouri. Northeast Missouri Rural Telephone Company provides telecommunication services including telephone and internet to its customers in Missouri.

High Cost

In the table below, we list the High-Cost support disbursed by USAC to the USF Recipient during the twelve-month period from January 1, 2023 to December 31, 2023, by High-Cost fund type:

High-Cost Fund Type	Amount
CAF-BLS	\$4,980,792
HCL	1,950,228
CAF-ICC	578,298
RDOF	6,013
TOTAL	\$7,515,331

Source: USAC open data

The USF Recipient received High Cost support from January 1, 2023, to December 31, 2023, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

CAF-BLS, HCL, and CAF-ICC disbursed in 2023, were based on forms submitted in 2021 that encompass 2021 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). RDOF funds disbursed in 2023 are based on winning bids submitted in previous years subject to minimum service requirements to designated customer locations.

RHC

In the table below, we list the RHC support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2023 to June 30, 2024, by RHC Program Fund:

RHC Program Fund	Amount
Healthcare Connect Fund	\$4,446
TOTAL	\$4,446

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. § 54.10, relative to disbursements of \$7,515,331 made from the High-Cost Program from January 1, 2023 to December 31, 2023 and disbursements of \$4,446 made from the Rural Health Care ("RHC") Program from July 1, 2023, to June 30, 2024.

SCOPE

The scope of this performance audit included, but was not limited to, reconciliation of USF support received to the USF Recipient's underlying financial data, review of the Continuing Property Records ("CPRs") and G/L details; including the use of an audit software platform to perform searches of the memo and description fields in the G/L detail to identify transactions with details that match the names of Covered companies; review of internal network diagrams and internal scan outputs, if available; review of vendor policies, approved vendors, network vendor transactions and invoices; and physical inspection to determine whether USF funds were used for equipment or services produced or provided by the Covered Companies. The scope of our work relates to disbursements made from the High-Cost Program from January 1, 2023, to December 31, 2023 and disbursements made from the RHC Program from July 1, 2023, to June 30, 2024.

Our performance audit included, but was not limited to the following focus areas:

1. Annual Supply Chain Certification
2. Reconciliation of USF expenditure
3. Review of asset Records
4. Data analysis of relevant financial records
5. Network architecture review

PROCEDURES

1. Annual Supply Chain Certification

Baker Tilly obtained the FCC Form 473 filed in respect of funding year 2023 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 Federal Communications Commission as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations."

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

Baker Tilly reconciled USF disbursements to recipient records.

RHC

Baker Tilly notes that for RHC services, the RHC services were "finished" services delivered over existing network facilities. To the extent special construction was required, it was performed in

the ordinary course of business using general inventory, materials, and supplies. The USF Recipient had no separate accounting for inventory, materials, supplies, or construction activities as of June 30, 2024, for projects funded with RHC funds.

High Cost

Baker Tilly obtained and reviewed evidence of projects completed using USF support and determined whether elements of the project expenditures involved network equipment and services that involved Covered Companies or companies on the covered list. Baker Tilly also analyzed USF Recipient's financial and transactional information (including financial statements, G/L accounts for vendor payments, invoices, contracts, and work order details) to identify potential transactions for equipment or services with Covered Companies. Finally, Baker Tilly reviewed recipient asset listings and related expense report documentation and determined whether network elements that are included in the FCC's published list of communication equipment and services from Covered Companies exist.

3. Review of Asset Records

RHC

USF Recipient had no separate accounting for inventory, materials, supplies, or construction activities as of June 30, 2024, for projects funded with RHC funds, therefore, Baker Tilly did not select any items related specifically to RHC. Instead, Baker Tilly reviewed the work order invoice detail to identify potential transactions with Covered Companies in addition to testing expense distributions and invoice sampling for selected expense accounts.

High Cost

Baker Tilly obtained the COE 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. Baker Tilly performed a keyword search of the COE CPRs to obtain reasonable assurance that the assets on the list could not be traced to the Covered List Companies. Baker Tilly selected a non-statistical sample of 70 assets and requested supporting invoices to verify that the equipment details in the invoices matched the CPR details and that no equipment or services were produced or provided by the Covered List Companies. Baker Tilly also searched the G/L for the TPUC account which would have any work-in-progress items that had yet been added to the CPRs.

Baker Tilly noted Northeast Missouri Rural Telephone Company had an open balance for TPUC in the 2023 G/L. Baker Tilly obtained the work-in-progress listing and reconciled the total to the Trial Balance or G/L for account 2003 (TPUC) to ensure that it was a complete listing. Baker Tilly randomly selected 35 work-in-progress items and requested detail listings of them to verify that no equipment or services were produced or provided by the Covered List Companies.

4. Data Analysis of Relevant Financial Records

Baker Tilly obtained general ledger activity files for the funding periods. Baker Tilly imported the general ledger files into an audit software platform (Mindbridge) and performed searches on the memo and description sections of the general ledger detail to verify that there were no transactions with details that matched the names of the Covered List Companies.

5. Network Architecture Review

Baker Tilly reviewed network diagrams and conducted a physical inspection of Northeast Missouri Rural Telephone Company's network assets to validate the physical existence of network assets at four central office locations, including the primary central office of the network, and to confirm that the manufacturer and model in the CPR details provided matched the equipment in service. Baker Tilly reviewed the CPR details and physical network assets to verify that key identifiers such as asset manufacturer, vendor and model could not be traced to Covered List Companies. In addition to the CPR, Baker Tilly also obtained a network asset listing from NEMR. Baker Tilly reviewed this network asset listing as well to obtain reasonable assurance that no assets could be traced to Covered Companies. Baker Tilly notes that NEMR has a centralized network management software platform but could not provide a copy of their NMS's output with equipment manufacturers names and CLLI codes due to network security requirements. As such, Baker Tilly was unable to obtain and review the internal network scan.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

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

Conclusion

Baker Tilly'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 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, relevant to the disbursements made from the High Cost Program from January 1, 2023 to December 31, 2023 and the disbursements made from the RHC Program from July 1, 2023 to June 30, 2024 identified no audit findings.

** This concludes the audit report.**

INFO Item: Audit Released September 2025
Attachment H
1/27/2026

Attachment H

SC2024BE002

Palmetto Rural Telephone Cooperative, Inc.
Audit ID: SC2024BE002

*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: September 17, 2025



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

September 17, 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 Palmetto Rural Telephone Cooperative, Inc. (Universal Service Fund (“USF”) Recipient, Study Area Code (“SAC”) 240536 or “Palmetto Rural Coop”) Service Provider Identification Number (“SPIN”) 143001525), for disbursements of \$9,651,006 made from the Universal Service Fund’s High Cost Program from January 1, 2022 to December 31, 2022. Our work was performed from January 22, 2025, to July 25, 2025 and our results are as of September 17, 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 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 \$9,651,006 made from the High Cost Program from January 1, 2022 to December 31, 2022.

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 Michelle Garber, USAC Interim Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division

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LIST OF ACRONYMS

Acronym	Definition
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
C.F.R.	Code of Federal Regulations
COE	Central Office Equipment
Covered Companies	Huawei Technologies Company, 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
EY	Ernst & Young, LLP
FCC	Federal Communications Commission
FCC Form 481	Carrier Annual Reporting Data Collection Form
G/L	General Ledger
HCL	High Cost Loop
RHC	Rural Health Care
RDOF	Rural Digital Opportunity Fund
SAC	Study Area Code
TB	Trial Balance
USAC	Universal Service Administrative Company
USF	Universal Service Fund
Palmetto Rural Coop (USF Recipient)	Palmetto Rural 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, 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 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*

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](https://www.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.

Communications Supply Chain Through FCC Programs Second Report and Order, rule 47 C.F.R. § 54.10, relative to disbursements of \$9,651,006.00 made from the High Cost Program from January 1, 2022 to December 31, 2022.

USF Recipient Overview

Palmetto Rural Coop (SPIN: 143001525), the subject of this performance audit, is located in Walterboro, South Carolina. The USF recipient is a stand-alone entity with Palmetto Telephone Communications, LLC, Palmetto Rural Asset Management, LLC, Premiere Enterprises, LLC, and Palmetto Holdings, LLC. Palmetto Rural Coop provides long distance, internet, IPTV, video and technology services, data processing services, and other deregulated telecommunications services.

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 ⁶	Amount
CAF BLS	\$6,668,670.00
HCL	\$2,158,416.00
CAF ICC	\$776,418.00
RDOF	\$47,502.00
TOTAL	\$9,651,006.00

Source: USAC

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), Connect America Fund Broadband Loop Support (CAF BLS), and Rural Digital Opportunity Fund (RDOF) funds disbursed in 2022, were based on forms submitted in 2020 that encompass 2020 data (line count data and totals of specific predesignated 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.

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. § 54.10, relative to disbursements of \$9,651,006.00 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 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 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.

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 can be traced to Covered Companies or companies on the covered list. 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 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 list of communication equipment and services from Covered Companies 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 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 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 the Covered 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 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 Companies. EY obtained and reviewed the underlying invoices provided by the entity for the equipment samples 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 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 Company" 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. EY 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. 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 the list of "Covered 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 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

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.

EY 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. **