2021.01.25 High Cost & Low Income

Audit Reports Briefing Book

Monday, January 25, 2021

Virtual Meeting

Universal Service Administrative Company

700 12th Street NW, Suite 900

Washington, DC 20005

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: November –December 2020

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Cassadaga Telephone Corporation **Attachment A**	0	• Not Applicable	$218,502	$0	$0	N
Consolidated Telcom **Attachment B**	6	• Part 64 Adjustment for Common General Support Expenses – The direct analysis (square footage) performed to allocate certain general support common costs was incomplete.	$7,630,442	$34,872	$34,872	N
Golden West Telecommunications **Attachment C**	7	• Inadequate Documentation: Assets, Affiliates and Expenses – The Beneficiary did not provide adequate support for a portion of three asset samples, four affiliate transactions, and one expense transaction.	$15,818,186	$108,959	$108,959	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Tri-County Telephone Association, Inc. **Attachment D**	5	• Inaccurate Cost Allocations – The Beneficiary's indirect cost allocation factors to allocate costs between regulated and nonregulated activities were unsupported or based on outdated factors. As a result, regulated expenses included in the study were understated by $117,665.	$2,839,818	($97,380)	$0	Y
Total	**18**		**$26,506,948**	**$46,451**	**$143,831**	

ATTACHMENT A

HC2019BE010

Cassadaga Telephone Corporation Audit ID: HC2019BE010 (SAC No.: 150076)

Performance audit for the Universal Service High Cost Program Disbursements made during the twelve-month period ended December 31, 2018

Prepared for: Universal Service Administrative Company

As of Date: October 29, 2020

KPMG LLP
800 S. Gay St, Suite 910
Knoxville, TN 37929

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EXECUTIVE SUMMARY

October 29, 2020

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 performance audit objectives relative to Cassadaga Telephone Corporation Study Area Code ("SAC") No. 150076 ("Cassadaga" or "Beneficiary") for disbursements, of $218,502 made from the Universal Service High Cost Program ("HCP") during the twelve-month period ended December 31, 2018. Our work was performed during the period from December 9, 2019 to October, 2020, and our results are as of October 29, 2020.

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

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as specified FCC Orders governing federal Universal Service Support for the HCP (collectively, the "Rules") relative to disbursements, of $218,502, made from the HCP during the twelve-month period ended December 31, 2018. Compliance with the Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

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

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

We noted other matters that we have reported to the management of the Beneficiary in a separate letter dated October 29, 2020.

This report is intended solely for the use of the Universal Service Administrative Company, the Beneficiary, 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 to a requesting third party.

Sincerely,

KPMG LLP

List of Acronyms

Acronym	Definition
ACAM	Alternative Connect America Cost Model
BLS	Broadband Loop Support
C.F.R.	Code of Federal Regulations
CAF ICC	Connect America Fund Intercarrier Compensation
ETC	Eligible Telecommunications Carriers
FCC	Federal Communications Commission
Form 509	CAF BLS Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
HCP	High Cost Program
ICLS	Interstate Common Line Support
ILEC	Incumbent Local Exchange Carrier
MLB	Multi-Line Business
NECA	National Exchange Carrier Association
SAC	Study Area Code
SLB	Single-Line Business
SLC	Subscriber Line Charge
SNA	Safety Net Additive
SVS	Safety Valve Support
TB	Trial Balance
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no findings.

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results. USAC Management notes that there is no recovery associated with the audit results. Thus, USAC Management will not seek recovery at this time. USAC Management will issue a separate memorandum to the Beneficiary to address the audit results.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation that operates under the direction of the FCC pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the USF through four support mechanisms: High Cost; Lifeline; Rural Health Care; and Schools and Libraries. These four support mechanisms ensure that all people regardless of location or income level have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations or advocate regarding any matter of universal service policy.

The High Cost Support Mechanism, also known as the HCP, ensures that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas, regardless of location or economic strata. Thus, the HCP provides support for telecommunications companies (Beneficiaries) that offer services to consumers in less-populated areas. Several legacy HCP support mechanisms are noted below:

1. HCL: HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following two sub-components:
    a. SNA: SNA support is available for carriers that make significant investment in rural infrastructure in years when HCL support is capped and is intended to provide carriers with additional incentives to invest in their networks.
    b. SVS: SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. CAF ICC: CAF ICC support is available to ILECs to recover revenue that is not covered by Access Recovery Charges (ARC) to the end user.
3. ICLS: ICLS is available to rate-of-return incumbent carriers and competitive carriers, and is designed to help carriers offset interstate access charges and to permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its SLCs remain affordable to its customers.
4. CAF BLS: CAF BLS provides support for voice and broadband service, including stand-alone broadband. CAF BLS provides support for rate-of-return carriers to the extent that SLC caps do not permit them to recover their common line revenue requirements. CAF BLS replaced ICLS effective July 1, 2016.
5. ACAM: ACAM provides funding to rate-of-return carriers that voluntarily elected to transition to a new cost model for calculating High Cost support in exchange for meeting defined broadband build-out obligations.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the HCP relative to disbursements, of $218,502, made from the HCP during the twelve-month period ended December 31, 2018.

Beneficiary Overview

Cassadaga Telephone Corporation (SAC No. 150076), the subject of this performance audit and a New York registered Corporation, is an Average Schedule ETC located in Fredonia, NY. Cassadaga, along with its subsidiaries/affiliates, provides local access, long distance, internet, and wireless home security services and telecommunications equipment to its customers. Cassadaga owns and operates a single exchange that serve over 700 customers in upstate New York.

Brick Skirt Holdings, Inc. wholly owns Cassadaga Telephone Corporation, the regulated entity, which provides long distance, internet, and security services to its customers. Brick Skirt Holdings, and its subsidiary DFT Communications provide telecommunications exchange and local access services and telecommunications equipment in a service area located primarily in Chautauqua County, NY.

The following table illustrates the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2018, by fund type:

High Cost Support	Disbursement Amount
Broadband Loop Support (BLS)	$ 151,662
Connect America Fund (CAF) Intercarrier Compensation (ICC)	$ 61,662
Interstate Common Line Support (ICLS)	$ 5,178
Total	**$ 218,502**

Source: USAC

The High Cost support received by the Beneficiary during the twelve-month period ended December 31, 2018, was based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2016 FCC Form 509, based on calendar year 2016 data, and
- 2016 CAF ICC Tariff Review Plan (TRP), based on program year 2016 data

The above Forms capture line count data and the totals of certain pre-designated G/L Accounts including all revenue accounts. The Beneficiary is disbursed amounts from USAC based on Average Schedule disbursements.

OBJECTIVES

The audit objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the HCP relative to disbursements, of $218,502, made from the HCP during the twelve-month period ended December 31, 2018.

SCOPE

The scope of this performance audit includes, but is not limited to, reviewing HCP Forms or other correspondence and supporting documentation provided by the Beneficiary, assessing the Beneficiary's methodology used to prepare or support the HCP Forms or other correspondence, and evaluating disbursement amounts made by the Beneficiary or potentially due to the Beneficiary. The scope of our work is focused on the HCP Forms or other correspondence relative to disbursements made from the HCP during the twelve-month period ended December 31, 2018, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the HCP during the twelve-month period ended December 31, 2018. The Beneficiary is disbursed amounts from USAC based on Average Schedule disbursements.

KPMG identified the following areas of focus for this performance audit:[1]

1. General Procedures
2. HCP Eligibility Forms
3. Subscriber Listings and Billing Records
4. Revenues
5. Exchanges

[1] If exceptions were noted in areas other than the aforementioned in-scope areas as a result of our testing procedures and the execution of our performance audit, we identified those findings in the 'Results' section of the report.

PROCEDURES

1. General Procedures

KPMG obtained and examined the ETC designation order to assess whether the Beneficiary was designated as an ETC in the study area prior to receiving HCP support. We obtained and examined the Beneficiary's state and/or self-certification letters for timeliness and the notation that all federal HCP support provided was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. We also obtained the Form 481 filed by the Beneficiary to assess whether the Beneficiary made the required certifications and whether the Beneficiary's supporting documentation agrees to the data reported for the certifications made.

2. HCP Eligibility Forms

For the relevant HCP Forms (FCC Form 509 and CAF ICC) completeness of reported accounts were assessed by reconciling NECA Filings to the General Ledger and billing support. Reconciling items were discussed with the Beneficiary.

3. Subscriber Listings and Billing Records

KPMG analyzed subscriber listings and billing records to assess that the number and type of lines reported in the HCP filings agreed to underlying support documentation that subscriber listings did not include duplicate lines, invalid data, or non-revenue producing or non-working loops, and that lines were properly classified as residential/single-line business or multi-line business.

4. Revenues

KPMG examined revenue G/L accounts, invoices and other related documentation to verify the accuracy and existence of revenue account balances.

5. Exchanges

KPMG obtained and examined general exchange tariffs and other related documentation to determine whether the Beneficiary reported the accurate number of exchanges.

RESULTS

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

KPMG's performance audit procedures identified no findings.

CONCLUSION

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 identified no findings relative to disbursements made from the HCP during the twelve-month period ended December 31, 2018.

ATTACHMENT B

HC2019BE021

Consolidated Telcom

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund
High Cost Support Mechanism Rules
USAC Audit No. HC 2019BE021

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MOSSADAMS

EXECUTIVE SUMMARY

October 26, 2020

Teleshia Delmar, Audit and Assurance Division
Universal Service Administrative Company
700 12th St NW, Suite 900
Washington, DC 20005

Dear Teleshia Delmar:

This report represents the results of Moss Adams LLP's (we, us, our, and Moss Adams) work conducted to address the performance audit obligations relative to Consolidated Telcom (Beneficiary), study area code 381607 for disbursements of $7,630,442 made from the federal Universal Service High Cost Program (HCP) (Disbursements) during the year ended December 31, 2018.

We conducted our performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form our conclusions. We believe the evidence we have obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. However, our performance audit does not provide a legal determination of the Beneficiary's compliance with specified requirements.

The objective of this performance audit was to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Part 32, Subparts C, D, K, and M; Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B as well as the Federal Communications Commission's (FCC) orders governing federal Universal Service Support for the HCP relative to the disbursements (collectively, the Rules).

Based on the test work performed, our audit disclosed five detailed audit findings and one limited scope finding (Finding or Findings) discussed in the Audit Results section. The scope limitation was related to our inability to determine accurate labor allocations as the time studies used to support the allocations for the period under audit could not be provided. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations.

This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

Moss Adams LLP

Spokane, Washington
November 2, 2020

AUDIT RESULTS

Audit Results	Monetary Effect & Recommended Recovery
Finding #1: 47 C.F.R. § 64.901(a), (b) – Part 64 Adjustment for Common General Support Expenses: The direct analysis (square footage) performed to allocate certain general support common costs was incomplete.	$85,336
Finding #2: 47 C.F.R. § 32.6534 – Accounting Time Coded to Plant Operations Administration Expense: Accounting and other administrative employees improperly coded property accounting activities to plant operations administration expense codes.	$17,756
Finding #3: 47 C.F.R. § 32.6720 and Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking FCC 18-29 – Expenses improperly included in regulated expenses: The 2016 cost study included expenses that were not related to provisioning, maintaining, or upgrading telecommunications service.	$4,468
Finding #4: 47 C.F.R. § 54.320(b) – Lack of Supporting Documentation for Labor Allocations: The Beneficiary was unable to provide supporting documentation for general time allocations for certain employees.	$0
Finding #5: 47 C.F.R. § 64.901(a), (b) – Part 64 Adjustment for Other Postretirement Employment Benefit (OPEB) Liability: The 2016 cost study did not include an adjustment to reduce the OPEB liability for the estimated portion related to nonregulated operations.	($10,796)
Finding #6: 47 C.F.R. § 32.2000(g) – Use of Group Asset Depreciation for Vehicles: The Beneficiary calculated depreciation expense on an individual asset basis for vehicles rather than under the group plan of accounting for depreciation.	($61,892)
Total	**$34,872**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for the High Cost Program support amount noted in the chart below. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

Note: USAC's High Cost Program Management does not net findings across SACs and High Cost does not pay additional support in the event of a finding of underpayment.

	HCL (A)	ICLS (B)	USAC Recovery Action (A) + (B) = (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$25,663	$59,673	$85,336	
Finding #2	$65,456	$(47,700)	$17,756	
Finding #3	$3,310	$1,158	$4,468	
Finding #5		($10,796)	($10,796)	
Finding #6		($61,892)	($61,892)	
Mechanism Total	$94,429	$(59,557)	$34,872	

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunications services, including local service, and Internet to residential and business customers residing in areas of southwestern North Dakota. The company also provides non-regulated services such as cable television.

PROGRAM

USAC is an independent not-for-profit corporation that operates under the direction of the FCC pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program (HCP), a component of the USF, ensures that consumers in rural areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. During the audit period, the following HCP support mechanisms were available to cost-based telecommunications carriers:

- High Cost Loop support (HCL): HCL is available for rural companies operating in services areas where the cost to provide service exceeds 115% of the national average cost per loop.
- Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support replaced Local Switching Support and is available to ILECs to assist them in recovering a portion of the revenue requirement related to switching investment that is not covered by the access recovery charge (ARC) billed to the end user or certain other charges billed to other carriers. This revenue requirement was frozen based on forecasted switching investment filed by eligible carriers in 2011 and is being reduced by 5% per year. CAF ICC disbursements began July 1, 2012.
- Interstate Common Line Support (ICLS): ICLS is available to ILECs and is designed to help its recipients cover common line revenue requirement while ensuring the subscriber line charge (SLC) remains affordable to customers. The common line revenue requirement is related to facilities that connect end users to the carrier's switching equipment. With the transition to Connect America Fund Broadband Loop Support (CAF BLS), 2018 was the last year for ICLS true up disbursements.

OBJECTIVE, SCOPE, AND PROCEDURES

OBJECTIVE

The objective of our performance audit was to evaluate the Beneficiary's compliance with 47 C.F.R Part 32 Subparts C, D, K, and M; Part 36 Subpart F; Part 64 Subpart I; Part 69 Subparts D, E, and F; and Part 32 Subpart B, as well as the FCC Orders governing federal Universal Service Support for the HCP relative to the disbursements for the 12-month period ended December 31, 2018.

This performance audit did not constitute an audit of financial statements in accordance with *Government Auditing Standards*. We were not engaged to, and do not render an opinion on the Beneficiary's internal control over financial reporting or internal control over compliance. We caution that projecting the results of our evaluation on future periods is subject to the risks that controls may become inadequate because of changes in conditions that affect compliance.

SCOPE

In the following chart, we summarize the High Cost Program support that was included in the scope of this audit:

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2016	2018	$1,180,842
High Cost Loop (HCL)	2016	2018	$6,238,706
Interstate Common Line Support (ICLS)	2016	2018	$210,894
Total			**$7,630,442**

The audit results include a scope limitation in calculating part of the monetary impact with Finding #4. See Finding #4 for further discussion on the limitation.

AUDIT METHODOLOGY

To accomplish our audit objective, we performed the following procedures:

Reconciliation

We reconciled the December 31, 2016 and 2015, trial balances to the separations and Part 64 study inputs and then to the applicable HCP Forms, obtained explanations for any variances, and evaluated the explanations for reasonableness.

Rate Base and Investment High Cost Program Support Amount

We utilized an attribute sampling methodology[1] to select asset samples from central office equipment (COE) and cable and wire facilities (CWF) accounts. We made asset selections from continuing property record (CPR) detail. We determined that the balances for the selected assets were properly supported by underlying documentation such as work order detail, third-party vendor invoices, materials used sheets, and time and payroll documentation for labor and related costs.

We agreed the amounts charged to work order detail and verified the proper general ledger coding under Part 32. In addition, we verified the physical existence of select assets.

Tax Filing Status

We verified the tax filing status for the Beneficiary and obtained and reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness.

[1] Attribute sampling is a methodology where the selections made from a representative population are tested to determine if they contain predefined qualified characteristics (attributes).

Expenses

We utilized an attribute sampling methodology to select expense samples from operating expense accounts that impact ICLS and HCL. We made payroll selections from a listing of employees. We agreed the amounts from the employee paystubs to supporting documentation such as time sheets or time studies, labor distribution reports, and approved pay rates, and verified that the Beneficiary had coded the costs to the proper Part 32 account. We reviewed benefits and clearings to ensure the Beneficiary's compliance with Part 32. In our review, we were unable to determine whether the Beneficiary's allocated labor costs based on historical time studies were coded to the proper Part 32 account. Also, the Beneficiary could not provide an updated 2016 time study. As a result, there was a scope limitation related to our inability to calculate the monetary impact of this issue on support received.

We made other disbursement selections from accounts payable transactions and agreed amounts to supporting documentation, reviewing for proper coding under Part 32. We selected a sample of manual journal entries to ensure reclassifications between expense accounts were appropriate and reasonable. We utilized MindBridge, a software program that uses data science and machine learning techniques to uncover outliers and anomalous transactions for 100% of the transactions within general ledger data, to identify keywords within the transaction descriptions to identify transaction for potential disallowed expenses, and reviewed supporting documentation for a selection of transactions to determine if expenses were properly included or properly excluded from the cost study.

Affiliate Transactions

We performed procedures to assess the reasonableness of affiliate transactions that occurred during the period under audit. The affiliated transactions involved the transfer of assets or the provision of service between the Beneficiary and its wholly owned subsidiary. The Beneficiary's affiliates include its wholly-owned subsidiary Consolidated Enterprises, Inc. and Dakota Carrier Networks LLC, in which the Beneficiary holds a 7.26% equity interest. We selected a sample of various transactions to determine whether the Beneficiary had recorded the transactions in the appropriate Part 32 accounts in accordance with 47 C.F.R. Section 32.27. The following transactions represent the different types of affiliates transactions entered into by the Beneficiary:

- Trunk charges priced at tariffed rates
- DSL wholesale charges at tariffed rates
- Building rent at fully distributed costs

Revenues and Subscriber Listings

We tested general ledger accounts, subscriber bills, and other documentation to verify the accuracy and existence of revenues. We utilized an attribute sampling methodology to select revenue samples from subscriber listings. We tested subscriber bills with procedures to ensure the lines were properly classified as residential, single-line business, or multi-line business. In addition, we reconciled the revenues reported to the National Exchange Carrier Association (NECA) to the general ledger and billing support. We obtained subscriber listings and billing records to determine the lines or loops reported in the HCP filings agreed to supporting documentation. We reviewed the subscriber listings for duplicate lines, invalid data, and nonrevenue producing lines.

Part 64 Allocations

We (1) reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and corresponding data inputs used to calculate the factors, (2) recalculated the material factors, and (3) recalculated the material amounts allocated. We also evaluated the reasonableness of the assignment between regulated, nonregulated, and common costs and the apportionment factors as compared to the regulated and nonregulated activities performed by the Beneficiary.

Central Office Equipment (COE) and Cable and Wire Facilities (CWF) Categorization

We reviewed the Beneficiary's methodology for categorizing assets including a comparison to network diagrams. We reconciled the COE and CWF amounts to the cost studies and agreed them to the applicable HCP Forms. In addition, we reviewed power and common allocation, physically inspected a sample of COE assets, and tested route distances of CWF for reasonableness.

Revenue Requirement

We recalculated the Beneficiary's revenue requirement using our cost allocation software program and reviewed the calculation of the revenue requirement including the applications of Part 64, 36, and 69 for reasonableness. In addition, we traced cost study adjustments that were not recorded in the general ledger to supporting documentation and reviewed them for reasonableness.

DETAILED AUDIT FINDINGS

Our performance audit resulted in the following detailed audit findings and recommendations with respect to the Beneficiary's compliance with the Rules. We also included an estimate of the monetary impact of these findings relative to 47 C.F.R. Part 54, Subparts C, D, K, and M, Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B, as well as FCC orders governing federal Universal Service Support applicable to the disbursements made from the HCP during the year ended December 31, 2018.

Finding #1: 47 C.F.R. § 64.901(a), (b) – Part 64 Adjustment for Common General Support Expenses

CONDITION

Moss Adams obtained and reviewed the Beneficiary's narrative of the methodology used to assign costs to nonregulated activities, the general ledger detail, a square footage analysis, the cost study adjustments, and related supporting schedules to determine whether the Beneficiary reported amounts accurately for High Cost Program purposes. The Beneficiary used a square footage analysis of the corporate headquarters building to establish a basis for cost causative allocations of certain general support operating expenses. The Beneficiary performs this assessment annually. Within the detailed analysis, the Beneficiary allocated the square footage of offices and workspaces based on the job functions of the individuals using the office or workspace. However, the Beneficiary allocated common spaces, such as bathrooms, boardrooms, break rooms, and conference rooms 100% to the regulated operations and no subsequent allocation was made to factor in the nonregulated use of these shared spaces. As a result of not allocating the common spaces to nonregulated operations, the Beneficiary included nonregulated costs in its regulated accounts.

CAUSE

The process to prepare, review, and approve the 2016 cost study did not identify and adjust for the allocation of expenses related to common areas consistently with offices and workspaces.

EFFECT

The exception[2] identified above resulted in an overstatement of regulated expenses of $139,806, which impacted ICLS and HCL disbursements. To calculate the monetary impact of this Finding, Moss Adams reduced regulated expenses by $139,806 in the Beneficiary's cost study balances reported in its High Cost filings. As summarized by support mechanism below, we estimated the monetary impact of this Finding relative to disbursements for the 12-month period ended December 31, 2018 to be an overpayment of $85,336:

Support Type	Monetary Effect & Recommended Recovery
ICLS	$59,673
HCL	$25,663
Total	**$85,336**

RECOMMENDATION

We recommend that USAC management seek recovery of the amounts identified in the Effect section above.

We recommend that the Beneficiary correct its headquarter square footage analysis so that common areas are allocated between regulated and nonregulated activities in a rational and supportable way. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

We acknowledge the results of the findings and we have implemented appropriate procedures to correct this going forward.

[2] In the report, AAD identifies an "exception" when, based on a review of the Beneficiary-provided evidence/documentation, it identifies a discrepancy or deviation from the norm resulting in audit testing. An exception results in a finding based on the materiality of exception.

Finding #2: 47 C.F.R. § 32.6534(a) – Accounting Time Coded to Plant Operations Administration Expense

CONDITION

Moss Adams obtained and reviewed organizational charts, labor distribution reports for all employees, a workbook detailing the general time allocation percentages by employee, and the corresponding cost study adjustments to determine whether the Beneficiary coded and reported labor properly and accurately for High Cost Program purposes. The Beneficiary improperly coded labor costs for 6 employees to plant nonspecific expense (account 6534) for tasks that were related to customer service, executive, and general and administrative activities (accounts 6721 and 6623).

CAUSE

Per discussion with the Beneficiary on December 4, 2020, the Beneficiary believed that the activities related to accounting for work orders, maintaining accurate Continuing Property Records ("CPRs"), and other property accounting activities qualified as activities that fit the definition of the activities that should be recorded in the plant operations administrative expense accounts.

EFFECT

The exception identified above resulted in an overstatement in plant nonspecific expenses of $151,549, an understatement in customer expenses and corporate expenses of $69,754 and $81,795, respectively, which impacted ICLS and HCL disbursements. To calculate the monetary impact of this finding, Moss Adams reduced customer expenses by $69,754 and reduced corporate expenses by $81,795 in the Beneficiary's cost study balances reported in its High Cost filings. As summarized below the, we estimated the monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment of $17,756:

Support Type	Monetary Effect & Recommended Recovery
ICLS	$(47,700)
HCL	$65,456
Total	**$17,756**

RECOMMENDATION

We recommend that USAC management seek recovery of the amounts identified in the Effect section above.

We recommend that the Beneficiary make corrections to its labor allocations so that the time reported for any activities related to the record keeping of property, plant, and equipment is properly coded to the general and administrative accounts. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

We acknowledge the results of the findings and we have implemented appropriate procedures to correct this going forward.

Finding #3: 47 C.F.R. § 6720(c) and Report and Order, FCC 18-29 – Support Not Used for Intended Purposes

CONDITION

Moss Adams obtained and reviewed the Beneficiary's general ledger detail for all regulated expense accounts for 2016 and the cost study adjustments and related supporting schedules to determine whether the Beneficiary reported only allowable expenses for High Cost Program purposes. Moss Adams used MindBridge to evaluate 100% of the general ledger entries to identify transactions containing keywords within the transaction descriptions to identify potential disallowed expenses and reviewed supporting documentation for a selection of transactions to determine if expenses were properly included or properly excluded from the cost study. The Beneficiary recorded expenses related to employee gifts, sponsorships of conference or community events, membership fees and dues, donations, and scholarships as regulated expenses to plant nonspecific and corporate expense accounts in its filings for support. The Beneficiary should not have included these expense in the HCP Forms.

CAUSE

The Beneficiary's process to review, approve, and prepare the 2016 cost study did not identify and adjust for the expenses that should be excluded from regulated expenses.

EFFECT

The exception identified above resulted in an overstatement of regulated expenses of $28,951, which impacted ICLS and HCL disbursements. To calculate the monetary impact of this Finding, Moss Adams reduced regulated expenses by $28,951 in the Beneficiary's cost study balances reported in its High Cost filings. As summarized below, we estimated the monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment of $4,468:

Support Type	Monetary Effect & Recommended Recovery
ICLS	$1,158
HCL	$3,310
Total	**$4,468**

RECOMMENDATION

We recommend that USAC management seek recovery of the amounts identified in the Effect section above.

We recommend that the Beneficiary establish a process to identify all expenses that should be disallowed and remove these expenses from the cost study and HCP Forms. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

We acknowledge the results of the findings and we have implemented appropriate procedures to correct this going forward.

Finding #4: 47 C.F.R. § 54.320(b) – Lack of Supporting Documentation for Labor Allocations

CONDITION

Moss Adams obtained and reviewed organizational charts, labor distribution reports for all employees, a workbook detailing the general time allocation percentages by employee, and the corresponding cost study adjustments to determine whether the Beneficiary coded and reported labor properly and accurately for High Cost Program purposes. The Beneficiary had several employees that use a "general" code for posting a portion of their time on time sheets, then subsequently allocated the time recorded in the general code to various general ledger codes based on a fixed allocation percentage. The Beneficiary was not able to provide supporting documentation for the factors used to allocate the time posted to general codes (i.e. scope limitation).

CAUSE

The Beneficiary did not have a system to maintain adequate documentation to report accurate data for High Cost Program purposes.

EFFECT

We were unable to calculate a monetary impact as there was no documentation to confirm whether the allocations were accurate[3].

RECOMMENDATION

For the 2018 disbursements, we recommend that the Beneficiary provide documentation or an alternate study to USAC Management to confirm that the labor allocations used by management and reported for High Cost Program purposes were reasonable. For subsequent disbursements, we recommend that the Beneficiary perform and maintain a time study or other supporting study to verify that the labor allocations reported for High Cost Program purposes are accurate. In addition, the Beneficiary may learn more about record retention requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

[3] We consider this issue to be a scope limitation on the calculation of monetary impact.

BENEFICIARY RESPONSE

We acknowledge the results of the findings and we have implemented appropriate procedures to correct this going forward. We will provide documentation to confirm that the labor allocations reported for High Cost purposes for the period under audit were reasonable.

Finding #5: 47 C.F.R. § 64.901(a), (b) – Part 64 Adjustment for Other Postretirement Employment Benefit (OPEB) Liability

CONDITION

Moss Adams obtained and reviewed the Beneficiary's 2015 and 2016 computation of the postretirement benefit liability, the corresponding cost study adjustments, and related supporting schedules to determine whether the beneficiary reported amounts accurately for High Cost Program purposes. The Beneficiary provides postretirement benefits to its employees and properly recorded the unfunded status of the plan as a liability in account 4310 – other long-term liabilities and other deferred credits in its financial statements. The liability includes benefits for employees that worked for both the regulated entity as well as the nonregulated affiliate, however, the entire liability was recorded at the regulated entity. The Beneficiary did not consider the portion of this liability that pertained to employee benefit costs that were originally booked to the nonregulated affiliate and as a result, did not make a corresponding adjustment in the cost study to reflect the portion of the liability related to nonregulated operations. Using direct labor, the beginning liability should have been reduced by $206,211 and the ending liability should have been reduced by $750,785 for the amount attributable to nonregulated activities.

CAUSE

The Beneficiary's process to prepare, review, and approve the 2016 cost study did not identify and adjust for the liabilities that should have been excluded from the regulated balances.

EFFECT

The exception identified above resulted in an overstatement of the average balance of the OPEB liability of $478,498, which impacted ICLS disbursements. To calculate the monetary impact of this Finding, Moss Adams reduced the beginning balance of other long-term liabilities by $206,211 and reduced the ending balance by $750,785 in the Beneficiary's cost study balances reported in its High Cost filings. We estimate that the monetary impact of this Finding relative to disbursements for the 12-month period ended December 31, 2018, to be an underpayment of $10,796 and summarize it as follows:

Support Type	Monetary Effect & Recommended Recovery
ICLS	($10,796)
Total	**($10,796)**

RECOMMENDATION

We recommend that the Beneficiary consider all hours worked by all employees across both the regulated company and the nonregulated subsidiary when computing the amount of the OPEB liability that is to be removed from the cost study. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

We acknowledge the results of the findings and we have implemented appropriate procedures to correct this going forward.

Finding #6: 47 C.F.R. § 32.2000(g) – Use of Group Asset Depreciation for Vehicles

CONDITION

Moss Adams obtained and reviewed a schedule of the Beneficiary's regulated property, plant, and equipment beginning and ending balances by asset class, accumulated depreciation balances by asset class, and depreciation expense amounts by asset class for the year under audit to determine whether the beneficiary properly computed and reported depreciation expense for High Cost Program purposes. The Beneficiary calculated depreciation expense on vehicles on an individual asset basis rather than using the group asset method of accounting for depreciation.

CAUSE

Per discussion with the Beneficiary on December 4, 2019, the Beneficiary communicated that it understood that this method was a departure from the Rules and that it elected to use specific asset depreciation to manage, or more specifically, to slow down the depreciation expense on newly acquired vehicles. Because of the large gross balances of the vehicle asset accounts, under group asset method of accounting for depreciation, newly acquired vehicles would fully depreciate in one or two months.

EFFECT

The exception identified above resulted in an understatement of depreciation expense of $351,265, as well as an understatement in the ending accumulated depreciation accounts for vehicles of $351,265, which impacted ICLS disbursements. To calculate the monetary impact of this finding, Moss Adams increased depreciation expense by $351,265 and increased the ending balance of the vehicle accumulated depreciation account by $351,265 in the Beneficiary's cost study balances reported in its High Cost filings. We estimate the monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2018, to be an underpayment of $61,892 and summarize it as follows:

Support Type	Monetary Effect & Recommended Recovery
ICLS	($61,892)
Total	**($61,892)**

RECOMMENDATION

We recommend that the Beneficiary correct its use of specific asset depreciation for vehicles and compute depreciation expense using the group plan of accounting for depreciation.

BENEFICIARY RESPONSE

We acknowledge the results of the findings and we have implemented appropriate procedures to correct this going forward.

CRITERIA

Finding	Criteria	Description
Findings #1 and #5	47 C.F.R. § 64.901(a), (b) (2016)	**(a)** Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. **(b)** In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. **(1)** Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service. **(2)** Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. **(3)** Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: **(i)** Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. **(ii)** When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. **(iii)** When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities. **(4)** The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.

Finding #2	47 C.F.R. § 32.6534(a) (2016)	(a) This account shall include costs incurred in the general administration of plant operations. This includes supervising plant operations (except as specified in § 32.5999(a)(3) of this subpart; planning, coordinating and monitoring plant operations; and performing staff work such as developing methods and procedures, preparing and conducting training (except on-the-job training) and coordinating safety programs.
Finding #3	Third Order on Reconsideration, and Notice of Proposed Rulemaking FCC 18-29(III)(A)(1) (2018)	FCC 15-133 - The Commission reminds all eligible telecommunications carriers (ETCs) that receive support from the Universal Service Fund's high-cost mechanisms (whether legacy high-cost program support or Connect America Fund support) of their obligations to use such support only for its intended purposes of maintaining and extending communications service to rural, high-cost areas of the nation. Expenditure of legacy high-cost or Connect America support for any other purpose is misuse and may subject the recipient to recovery of funding, suspension of funding, enforcement action by the Enforcement Bureau pursuant to the Communications Act of 1934 or our rules, and/or prosecution under the False Claims Act. FCC 18-29 - In this Report and Order, we adopt reforms to ensure that high-cost universal service support provided to eligible telecommunications carriers (ETCs) is used only for the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended pursuant to section 254(e) of the Act. We also adopt reforms to ensure that the investments and expenses that rate-of-return carriers recover through interstate rates are reasonable pursuant to section 201(b) of the Act. Our findings here do not prevent rate-of-return carriers from incurring any particular investment or expense, but simply clarify the extent to which investments and expenses may be recovered through federal high-cost support and interstate rates. The rules we adopt are prospective but the underlying obligations are preexisting and many of the rules we adopt today codify existing precedent. Our rules and the used and useful standard have long governed ETCs and rate-of-return carriers' behavior. Nothing we do in this Report and Order is intended to undermine our precedent.

Finding #3	47 C.F.R. § 32.6720(c) (2016)	(c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services.
Finding #4	47 C.F.R. § 54.320(b) (2016)	(b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.
Finding #6	47 C.F.R. § 32.2000(g)(2) (2016)	**(2)** Depreciation charges. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses,

		types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.

ATTACHMENT C

HC2017LR002

Available For Public Use

Universal Service
Administrative Co.

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Golden West Telecommunications Cooperative, Inc.

Limited Scope Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR002

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EXECUTIVE SUMMARY

July 2, 2020

Gordy Kraut
Chief Financial Officer
Golden West Telecommunications Cooperative, Inc.
415 Crown Street, P.O. Box 411
Wall, SD 57790-0411

Dear Mr. Kraut:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Golden West Telecommunications Cooperative, Inc. (Beneficiary), study area code 391659 disbursements for the year ending December 31, 2016, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed 7 detailed audit findings (Findings), as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communication Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

We appreciate the cooperation and assistance extended by your staff during the audit.

Sincerely,

Teleshia Delmar

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[1]
Finding #1: 47 C.F.R. § 54.320(b) - Inadequate Documentation: Assets, Affiliates and Expenses The Beneficiary did not provide adequate support for a portion of three asset samples, four affiliate transactions, and one expense transaction.	$83,340
Finding #2: 47 C.F.R. § 32.2(a)(b) – Misclassification of Part 32 Accounts: Expenses and Affiliates The Beneficiary recorded one expense transaction and two affiliate transactions to incorrect Part 32 accounts.	$25,171
Finding #3: 47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29 – Support Not Used for Intended Purposes The Beneficiary reported expenses that did not relate to the provision, maintenance, and upgrade of facilities and services.	$20,875
Finding #4: 47 C.F.R. § 32.2(a)(b) – Inaccurate Expenses The Beneficiary reported two inaccurately calculated expense transactions.	$11,653
Finding #5: 47 C.F.R. § 64.901(b)(3)(i) – Inaccurate Allocation of Expenses The Beneficiary assigns common cost allocations between multiple study areas (i.e. intercompany affiliates) based on access lines counts. AAD noted the access line ratio assigned to the Beneficiary's study area was incorrect because errors within the calculations, resulting in an overstatement of common costs.	$3,247
Finding #6: 47 C.F.R. § 69.104(g)(h) – Misclassified Access Lines The Beneficiary incorrectly reported 70 multi-line business lines as single-line business lines and 12 multi-line business lines as residential.	$2,983
Finding #7: 47 C.F.R. § 54.1305(i) – Inaccurate Loops The Beneficiary improperly included 36 category 1.1 loops within the Universal Service Fund Form, of which 31 loops had a start date after December 31, 2014, and the remaining 5 loops were disconnected prior to December 31, 2014.	($38,310)
Total	**$108,959**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 391659 for the High Cost Program support amount noted in the chart below. Note: USAC's High Cost Program Management does not net findings across SACs and High Cost does not pay additional support in the event of a finding of underpayment. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct

[1] The recovery amount noted in the table is not reflective of prior period or cap adjustments. The actual recovery amount for this final audit report will not exceed the proposed recovery amount.

application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	ICLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$59,546	$23,794	$0	$83,340	N/A
Finding #2	$17,361	$7,810	$0	$25,171	N/A
Finding #3	$7,670	$13,205	$0	$20,875	N/A
Finding #4	$8,412	$3,241	$0	$11,653	N/A
Finding #5	$1,155	$2,092	$0	$3,247	N/A
Finding #6	$0	$2,457	$526	$2,983	N/A
Finding #7	($38,310)	$0	$0	($38,310)	N/A
Mechanism Total	**$55,834**	**$52,599**	**$526**	**$108,959**	

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Beneficiary complied with the Rules.

SCOPE

In the following chart, AAD summarizes the High Cost Program support that was included in the scope of this audit:

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2016	2014-2015	$686,922
High Cost Loop (HCL)	2016	2014	$7,728,421
Interstate Common Line Support (ICLS)	2016	2014	$7,402,843
Total			**$15,818,186**

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in South Dakota.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

AAD recalculated the support that the Beneficiary received for each High Cost component and determined that there were no more than nominal differences between the amounts received and those recorded in

[2] *Id.*

the High Cost system.

B. High Cost Program Process

AAD obtained an understanding of the Beneficiary's processes related to the High Cost Program to determine whether the Beneficiary complied with the Rules. AAD also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings consistent with based on the dates established by the Rules (*i.e.,* month or year-end, as appropriate).

C. Subscriber Listing and Billing Records

AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer-assisted auditing techniques to analyze the data files and to determine whether:

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings;
- The data files contained duplicate lines;
- The data files contained blank or invalid data;
- The data files contained non-revenue producing or non-working loops; and
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. Fixed Assets

AAD obtained and examined the Beneficiary's continuing property records (CPRs) and related documentation to determine whether the Beneficiary reported accurate central office switching equipment balances as well as cable and wire facility equipment balances. AAD also examined documentation and conducted a physical inventory to determine whether the Beneficiary categorized fixed assets to the proper accounts.

E. Operating Expenses

AAD obtained and examined tax reports, accrual schedules, and related documentation to determine whether the Beneficiary reported accurate tax expenses and deferred tax liabilities. AAD obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. AAD obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. AAD obtained and examined general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses.

F. Revenues

AAD obtained and examined the general ledger, invoices, and other related documentation to determine whether the Beneficiary reported accurate common line and other revenue balances.

G. Form 481

AAD obtained and examined the Beneficiary's FCC Form 481 (Form 481) for accuracy by comparing select reported to the Beneficiary's data files.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.320(b) – Inadequate Documentation: Assets, Affiliates and Expenses

CONDITION

AAD obtained and examined documentation, including a sample of 40 assets totaling $9,972,035, 14 affiliate transactions totaling $267,064 and 19 expense transactions totaling $773,584, to determine whether the Beneficiary recorded its cost study balances in the proper amount and to the proper general ledger account for High Cost Program purposes. AAD noted the following exceptions[3]:

Exceptions Noted	Number of Exceptions	Transaction Type	General Ledger Account[4]	Value of Samples With Exceptions	Unsupported Portion of Samples With Exceptions
Unsubstantiated Overhead Allocation	3	Asset	Circuit Equipment (2232)	$4,946	$768
Missing Invoices and Unsubstantiated Allocation Methodology	1	Affiliate	General Support Expense (6120)	$21,812	$44,075[5]
Missing Invoices and Unsubstantiated Allocation Methodology	1	Affiliate	Circuit Equipment Expense (6232)	$14,989	$56,909[6]
Unsubstantiated Allocation Methodology	1	Expense	Engineering Expense (6535)	$25,848	$25,848
Missing Invoices and Unsubstantiated Allocation Methodology	1	Affiliate	Services Expense (6620)	$7,899	$2,899
Missing Invoices and Unsubstantiated Allocation Methodology	1	Affiliate	General & Administrative Expense (6720)	$21,877	$33,760[7]
	8	**Total**		**$97,371**	**$164,259**

[3] In this report, AAD identifies an "exception" when, based on a review of the Beneficiary-provided evidence/documentation, it identifies a discrepancy or deviation from the norm resulting in audit testing. An exception results in a finding based on the materiality of the exception.
[4] *See* 47 C.F.R. §§ 32.2232 (2014), 32.6120 (2014), 32.6232 (2014), 32.6535 (2014), 32.6620 (2014), and 32.6720 (2014).
[5] Note: the value of the exception is greater than the value of the sample because the sampled transaction was a quarterly transaction; AAD included the additional quarterly transactions as exceptions.
[6] *Id.*
[7] *Id.*

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its assets, affiliate and expense transactions in the proper amount and to the proper general ledger account. Because the Beneficiary did not provide adequate documentation to substantiate its assets, affiliate and expense transactions, AAD concludes that the Beneficiary did not report all or a portion of 8 transactions in the proper amount; and thus, it reported inaccurate cost study balances for High Cost Program purposes were inaccurate.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate that its assets, affiliate and expense transactions were recorded in the proper amount and to the proper general ledger account.

EFFECT

AAD calculated the monetary effect for this finding by deducting the value of the unsupported portions of the three assets, four affiliate and one expense transaction, totaling $164,259 and any associated accumulated depreciation and depreciation expense, from the balances reported by the Beneficiary in its respective accounts in its High Cost Program filings. AAD summarizes the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$59,546
ICLS	$23,794
CAF ICC	$0
Total	**$83,340**

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate its assets, expenses, and affiliate transactions are recorded in the proper amount and to the proper general ledger account to demonstrate compliance with FCC Rules. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Regarding the findings in accounts 6123.000000.00.4, 6232.020000.00.4, and 6720.000000.00.4, we disagree with the findings of our support being inadequate. Supporting documentation was given to show that the rates charged Golden West used the same methodology as charges to external Golden West Technologies' customers. The "Lease Example" document is a lease agreement accompanying a similar bill we've sent in the past. Additionally, an entire qualified expense should not be fully excluded, in this case a phone system, when it is a necessary expense to conduct business.

The finding in account 6535.000000.00 appears to be misunderstood. This entry is the Golden West portion of the CAM. As seen in the "Engineering CAM" document provided to USAC in March of 2018, the highlighted portion of each expense entry is Golden West's side of the CAM and should not be removed. Ultimately the year-to-date balance of this account was spread proportionately based on plant in service as seen in the **"6535 Calculation"** document which answered AIR 24 of the Golden West Audit Inquiries Record.

With hundreds of files in our audit folders it has been difficult to review responses and pertinent backup to understand the original inquiry since this process has taken almost 3 years. And in that time, many pieces of information and explanations have been shared, staff has changed, and the FCC has changed guidelines since the start of the audit which altered the scope and boundary of this audit while it was in progress.

With that said, the Company is also concerned about the expansion of the scope of the audit. Announcement letters state the scope of this audit is for funds received during the twelve-month period ended December 31, 2014. Therefore, we respectfully request USAC apply audit findings based on FCC policies during the year under review.

Golden West will take proper measures to ensure Fully Distributed Cost lease payments between Golden West Telecommunications Cooperative and its non-regulated affiliate Golden West Technologies are updated, at a minimum, on an annual basis as outlined in annual lease agreements.

The findings of this audit represent a small percentage of the total funds received by Golden West Telecommunications. We feel this shows a small monetary error rate that does not represent a lack of contols, documentation, or methodolgy by the company.

JSI has run the financial changes through their company specific cost study model. We are concerned that depreciation expense is being removed for non-applicable expense adjustments. JSI believes some of the difference may be in the application of the GDP-CPI used to create the cap on corporate expenses as well. The NACPL was frozen and applied to 2014 financials along with fluctuating Pro-rata Adjustment Factors that have all been considered in our calculations. Please see our calculations in the table below[.]

Support Type	**Calculated in JSI's Company Specific Allocator (See "Finding #1 Calc" Document)**
HCL	$56,068
ICLS	$24,259
CAF ICC	$0
Total	**$80,327**

AAD RESPONSE

The Beneficiary states in its response that it disagrees with several of the noted exceptions and submitted additional documentation to support its costs. AAD considered all the additional documentation provided and summarizes its updates below:

Exceptions Noted	Number of Exceptions	Transaction Type	General Ledger Account[8]	Value of Samples With Exceptions	Unsupported Portion of Samples With Exceptions	Resolution of Additional Documentation
Unsubstantiated Overhead Allocation	3	Asset	Circuit Equipment (2232)	$4,946	$768	No additional documentation provided. Exception remains.
Missing Invoices and Unsubstantiated Allocation Methodology	1	Affiliate	General Support Expense (6120)	$21,812	$44,075[9]	Additional documentation provided (i.e. an invoice and lease agreement) did not support the cost calculation. Further, AAD was unable to determine the allocation methodology based on the additional documentation; therefore, the exception remains.[10]
Missing Invoices and Unsubstantiated Allocation Methodology	1	Affiliate	Circuit Equipment Expense (6232)	$14,989	$56,909[11]	Additional documentation provided (i.e. an invoice and lease agreement) did not support the cost calculation. Further, AAD was unable to determine the allocation methodology based on the additional documentation; therefore, the exception remains.[12]
Unsubstantiated Allocation Methodology	1	Expense	Engineering Expense (6535)	$25,848	$25,848	Additional documentation provided

[8] *See* 47 C.F.R. §§ 32.2232 (2014), 32.6120 (2014), 32.6232 (2014), 32.6535 (2014), 32.6620 (2014), and 32.6720 (2014).
[9] The value of the exception is greater than the value of the sample because the sampled transaction was a quarterly transaction; AAD included the additional quarterly transactions as exceptions.
[10] Beneficiary provided documentation on July 2, 2020.
[11] The value of the exception is greater than the value of the sample because the sampled transaction was a quarterly transaction; AAD included the additional quarterly transactions as exceptions.
[12] Beneficiary provided documentation on July 2, 2020.

Exceptions Noted	Number of Exceptions	Transaction Type	General Ledger Account[8]	Value of Samples With Exceptions	Unsupported Portion of Samples With Exceptions	Resolution of Additional Documentation
						demonstrated that the Beneficiary allocated costs; however, the Beneficiary did not provide underlying support for the allocation methodology; therefore, the exception remains. [13]
Missing Invoices and Unsubstantiated Allocation Methodology	1	Affiliate	Services Expense (6620)	$7,899	$2,899	No additional documentation provided. Exception remains.
Missing Invoices and Unsubstantiated Allocation Methodology	1	Affiliate	General & Admin. Expense (6720)	$21,877	$33,760[14]	Additional documentation provided (i.e. an invoice and lease agreement) did not support the cost calculation Further, AAD was unable to determine the allocation methodology based on the additional documentation; therefore, the exception remains.[15]
	8	**Total**		**$97,371**	**$164,259**	

For these reasons, the finding, as noted in the chart above, remain unchanged.

The Beneficiary stated in its response that:

> "the Company is also concerned about the expansion of the scope of the audit. Announcement letters state the scope of this audit is for funds received during the twelve-month period ended December 31, 2014. Therefore, we respectfully request USAC apply audit findings based on FCC policies during the year under review."

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13 Beneficiary provided documentation on July 2, 2020.

14 *Id*.

15 *Id*.

The Beneficiary also stated in its response that:

> "[w]ith hundreds of files in our audit folders it has been difficult to review responses and pertinent backup to understand the original inquiry since this process has taken almost 3 years. And in that time, many pieces of information and explanations have been shared, staff has changed, and the FCC has changed guidelines since the start of the audit which altered the scope and boundary of this audit while it was in progress."

In response AAD notes that its announcement letter provided to the Beneficiary at the onset of the audit explicitly explained that this audit pertained to documentation as of December 31, 2014 filed for high cost program support disbursed in 2016. The Criteria section of this report explains the Rules applicable for each finding noted for the documentation period under review. While the audit timeline has not been ideal due to several reasons such as staffing changes, for example, the scope of audit (2016 disbursements) was not altered or expanded. Pursuant to 47 C.F.R. § 54.707, USAC is authorized to conduct audits of carriers that report data to the administrator.[16] In addition, beneficiaries receiving high cost support are required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules, and must maintain documentation for at least ten years from the receipt of funding (i.e. 2016).[17]

The Beneficiary also stated that:

> "[t]his findings of this audit represent a small percentage of the total funds received by Golden West Telecommunications. We feel this shows a small monetary error rate that does not represent a lack of contols, documentation, or methodolgy by the company."

AAD disagrees with the Beneficiary's assertion. While the Beneficiary believes that the monetary effect represents a small error rate, the audit report notes seven findings, which is an indication that the Beneficiary's policies and procedures were not adequate to ensure accurate reporting for High Cost Program purposes.

The Beneficiary's cost consultant performed its own monetary effect calculations according to its own cost study model. The documentation provided by the Beneficiary to support its cost consultant's calculation was not adequate and did not demonstrate what calculation inputs were adjusted to arrive at the updated monetary effect calculation. Further, AAD's calculation of monetary effect is based on FCC rules and High Cost Program requirements, which included application of the frozen NACPL (National Average Cost Per Loop), the

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[16] The FCC, including its Office of Inspector General, and USAC may request and obtain all records, documents and other information that is necessary to determine whether an entity receiving benefits from any of the universal service support mechanisms or supporting the universal service support mechanisms through contributions to the Universal Service Fund has been and continues to be in compliance with applicable federal and state laws and regulations. *See* 47 U.S.C. § 220(c). *See also,* 47 U.S.C. § 254 (authorizing the FCC to promulgate regulations for provision and support of universal service); 47 C.F.R. §§ 54.701(a) (appointing USAC as the permanent administrator of the federal universal service support mechanisms); 54.702(a) (designating USAC responsible for administering the schools and libraries support mechanism, the rural health care support mechanism, the high cost support mechanism, and the low income support mechanism); 54.702(b) (making USAC responsible for billing contributors, collecting contributions to the universal service support mechanisms, and disbursing universal service support funds).

[17] *See* 47 C.F.R. §54.320(b).

applicable pro-rata adjustment and GDP-CPI factors and the $250 line cap. Therefore, AAD's calculation of the monetary effect remains unchanged.

AAD notes that the Beneficiary began receiving A-CAM II as of August 2019. AAD modifies its original recommendation to include the following statement, "Note as of August 2019, the Beneficiary began receiving Alternative Connect America Cost Model (A-CAM II) support in addition to CAF ICC. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with FCC Rules."

Finding #2: 47 C.F.R. § 32.2(a)(b) – Misclassification of Part 32 Accounts: Expenses and Affiliates

CONDITION

AAD obtained and examined documentation, including a sample of 19 expense transactions totaling $773,584 and 14 affiliate transactions totaling $267,064, to determine whether the Beneficiary recorded its cost study balances to the proper general ledger account for High Cost Program purposes. In our review of the Beneficiary's documentation, AAD determined that one expense and two affiliate transactions were misclassified and not recorded to the proper general ledger account. AAD summarizes the noted exceptions below:

Exceptions Noted	Incorrect General Ledger Account[18]	Correct General Ledger Account[19]	Value of Samples With Exceptions	Portion of Samples With Exceptions
Misclassified Expense	Central Office Transmission Expense (6230)	Cable and Wire Facilities Expense (6410)	$21,947	$21,947
Misclassified Affiliate Transaction	Central Office Transmission Expense (6230)	General and Administrative Expense (6720)	$42,344	$42,344
Misclassified Portion of an Affiliate Transaction	Central Office Transmission Expense (6230)	General and Administrative Expense (6720)	$6,304	$4,981
		Total	**$70,595**	**$69,272**

Because the Beneficiary did not record one expense and two affiliate transactions to the proper Part 32 account, AAD concludes the cost study balances reported for High Cost Program purposes were inaccurate.

[18] *See* 47 C.F.R. § 32.6230 (2014).
[19] *See* 47 C.F.R. §§ 32.6410 (2014) and 32.6720 (2014).

CAUSE

The Beneficiary did not have adequate preparation, review, and approval processes to ensure the proper inclusion of expense and affiliate transactions were recorded in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that this issue occurred due to human error.[20]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the value of the one expense and one affiliate transaction, and the value of the portion of one affiliate transaction, totaling $69,272 from the balances reported by the Beneficiary in its respective accounts in its High Cost filings. AAD summarizes the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$17,361
ICLS	$7,810
CAF ICC	$0
Total	**$25,171**

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it classifies its affiliate and expense transactions to the proper general ledger accounts to demonstrate compliance with FCC Rules. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Initially, Golden West accepted the proposed changes as reasonable because it can be a matter of opinion. However, after the inquiry process, it was clarified that Scott Lassle[21] spent a significant amount of his time working on the network control plane software. This software was (and still is) used to provision/activate xDSL and various subscriber services on the network. Therefore, it is our aff[i]rmation that the company's allocations are not misclassified.

Part 32 rules are sometimes unclear. For example, numerous seminars are offered around the industry just for the advancement of the understanding of those rules. With that said, we find Finding #2 to be a matter of opinion rather than fact where in 47 C.F.R. § 32.6232 (b) it is illustrated that expense associated with Scott Lassle's duties would be considered "expenses associated with electronic circuit equipment".

We suggest the journal entry should be left as is. Golden West logs between 45,000 and 50,000 expense entries as a combined cooperative per year across more than 550 separate expense accounts. Even with that volume

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[20] Beneficiary responses to audit results summary, received December 24, 2019.

[21] Per Beneficiary responses to Audit Inquiries Record #27 received June 25, 2019, the Beneficiary identified Mr. Lassle as an employee of Golden West Technologies, an affiliated company.

Golden West takes great care in the proper allocation of their [P]art 32 journal entires. Somewhere in that volume of entires there can always be a difference of opinion.

As far as the phone system, we agree that an agreement for the phone system rental/maintance needs to be updated, however, the pricing for this service had not been updated and/or increased for several years prior to the audit date. Since Technologies does/did own the equipment there should be a value placed on the support and maintenance of equipment.

We are in the process of updating those agreements as well. To find comparables would be difficult, since no two phone systems are identical. However, the charges are in line with other agreements Technologies sells/leases to other vendors. See "Example of a GW Technologies Agreement.pdf" document which shows the methodology used was the same as for sales to external customers.

Since January 2019, Golden West has received model based Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding.

JSI has run the financial changes through their company specific cost study model. We are concerned that depreciation expense is being removed for non-applicable expense adjustments. JSI believes some of the difference may be in the application of the GDP-CPI used to create the cap on corporate expenses as well. The NACPL was frozen and applied to 2014 financials along with fluctuating Pro-rata Adjustment Factors that have all been considered in our calculations. Please see our calculations in the table [below].

Support Type	**Calculated in JSI's Company Specific Allocator (See "Finding #2 Calc" Document)**
HCL	$14,461
ICLS	$7,053
CAF ICC	$0
Total	**$21,514**

AAD RESPONSE

The Beneficiary asserts in its response that the affiliate transactions related to its employee Scott Lassle were not misclassified. Further, the Beneficiary asserts that this finding arises out of a difference of opinion. Per previous inquiry, AAD was informed by the Beneficiary that the employee spent time on numerous non-central office plant specific activities (i.e. project management, setting up intranet websites, maintaining the company time-off calendar, internal tracking of work order flow, etc.)[22] for both the regulated entity and non-regulated affiliated company. In addition, AAD noted that the amount of the invoice did not specify the type of work performed, and the Beneficiary did not provide underlying support to explain how the employee's time was allocated appropriately. AAD reviewed all the documentation provided as support for the Beneficiary's affiliate transactions and afforded the Beneficiary several opportunities to explain why it believes that these transactions were appropriately classified. However, the Beneficiary did not provide

[22] Beneficiary response to audit inquiries record, received June 25, 2019.

additional documentation to support their new position regarding the misclassified transactions. For these reasons, AAD's position on this finding remains unchanged.

The Beneficiary's cost consultant performed its own monetary effect calculations according to its own cost study model. The documentation provided by the Beneficiary to support its cost consultant's calculation was not adequate and did not demonstrate what calculation inputs were adjusted to arrive at the updated monetary effect calculation. Further, AAD's calculation of monetary effect is based on FCC rules and High Cost Program requirements, which included application of the frozen NACPL, the applicable pro-rata adjustment and GDP-CPI factors and the $250 line cap.. Therefore, AAD's calculation of the monetary effect remains unchanged.

The Beneficiary stated, "[s]ince January 2019, Golden West has received model based Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding." AAD agrees that the Beneficiary began receiving A-CAM II as of August 2019. AAD modifies its original recommendation to include the following statement, "Note as of August 2019, the Beneficiary began receiving Alternative Connect America Cost Model (A-CAM II) support in addition to CAF ICC. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with FCC Rules."

Finding #3: 47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29 – Support Not Used for Intended Purposes

CONDITION

AAD obtained and examined documentation to determine whether High Cost Program support was used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. During a review of the general ledger for the 12-months ending December 31, 2014, AAD determined that 342 transactions totaling $96,000, were not related to the provision, maintenance, and upgrading of facilities and services for which High Cost Program support was intended. The ineligible transactions included expenses related to sponsorships, gifts to employees, fees associated with late payments on filing, unpaid sales tax and other miscellaneous expenses, as summarized below:

General Ledger Account[23]	Total Value of Transactions With Exceptions
6120 – General Support Expense	$40
6230 – Central Office Transmission Expense	$8,429
6423 – Buried Cable Expense	$820
6530 – Network Operating Expense	$6,932
6613 – Product Advertising Expense	$35
6623 – Customer Services Expense	$696
6710 – Executive Expense	$3,834
6720 – General and Administrative Expense	$33,089
7370 – Nonoperating Income and Expense	$42,125
Total	**$96,000**

Thus, AAD concludes that the Beneficiary's reported balances did not only include transactions used for the provision, maintenance, and upgrading of facilities and services for which High Cost Program support in intended.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude transactions that were not used for the provision, maintenance, and upgrading of facilities and services for which the support was intended.

EFFECT

AAD calculated the monetary effect for this finding by subtracting the value of the 342 disallowed transactions, totaling $96,000, from the balances reported by the Beneficiary in the respective accounts in its High Cost Program filings. AAD summarizes the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$7,670
ICLS	$13,205
CAF ICC	$0
Total	**$20,875**

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the FCC Rules. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

[23] *See* 47 C.F.R. §§ 32.6120 (2014), 32.6230 (2014), 32.6423 (2014), 32.6530 (2014), 32.6613 (2014), 32.6623 (2014), 32.6710 (2014), 32.6720 (2014), and 32.7370 (2014).

BENEFICIARY RESPONSE

Golden West initially understood why these expenses were excluded based on the definitions laid out in FCC 15-133 (released October 2015) and FCC 18-29 (released March 2018) However, we still disagree this critiera should be applied to a company years before they could knowingly comply with the clarified guidelines, and these were not in line with the "large scale abuses" the FCC had been concerned with. These were expenses that are done in the normal course of business and have now been deemed not includable for USF purposes after the rules clarification.

Through their own admission in FCC 18-29, the FCC had not even reviewed the scope of expenditures which support is intended and "codified a simple, clear, and carefully defined, non-exclusive, list of expense categories" until such a time in 2015 and not fully clarified until 2018. To state "The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring…" when rules were not clarified until after the reporting year seems overstated. Golden West did set-up new G/L accounts for these expenses after the rules were clarified and no longer include them in the cost studies.

Golden West has already taken corrective action by conducting a thorough review of its accounting procedures, and will communicate and discuss expenses allowable under FCC rules with its consulting firm to ensure compliance with FCC C.F.R. rules. Since January 2019, Golden West has received model based Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding.

JSI has run the financial changes through their company specific cost study model. We are concerned that depreciation expense is being removed for non-applicable expense adjustments. JSI believes some of the difference may be in the application of the GDP-CPI used to create the cap on corporate expenses as well. The NACPL was frozen and applied to 2014 financials along with fluctuating Pro-rata Adjustment Factors that have all been considered in our calculations. Please see our calculations in the table [below].

Support Type	**Calculated in JSI's Company Specific Allocator (See "Finding #3 Calc" Document)**
HCL	$7,357
ICLS	$13,976
CAF ICC	$0
Total	**$21,333**

AAD RESPONSE

The Beneficiary "disagree[s] this critiera should be applied to a company years before they could knowingly comply with the clarified guidelines, and […] [t]hese were expenses that are done in the normal course of business and have now been deemed not includable for USF purposes after the rules clarification." The FCC provided clarification to 47 C.F.R. § 54.7(a) in FCC 15-133 (released October 2015) and FCC 18-29 (released March 2018). In FCC 15-133, the FCC specifically stated that the public notice was a reminder that support recipients must use all support for its intended purpose, consistent with section 54.7(a) rule. Section 54.7(a) was in effect prior to these subsequent Orders. Therefore, the Rule along with the clarifying Orders were applicable to the Beneficiary's audit period. For these reasons, AAD's position on this finding remains unchanged.

The Beneficiary's cost consultant performed its own monetary effect calculations according to its own cost study model. The documentation provided by the Beneficiary to support its cost consultant's calculation was not adequate and did not demonstrate what calculation inputs it adjusted to arrive at the updated monetary effect calculation. Further, AAD's calculation of monetary effect is based on FCC rules and High Cost Program requirements, which included application of the frozen NACPL, the applicable pro-rata adjustment and GDP-CPI factors and the $250 line cap.. Therefore, AAD's calculation of the monetary effect remains unchanged.

The Beneficiary stated, "[s]ince January 2019, Golden West has received model based Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding." AAD agrees that the Beneficiary began receiving A-CAM II as of August 2019. AAD modifies its original recommendation to include the following statement, "Note as of August 2019, the Beneficiary began receiving Alternative Connect America Cost Model (A-CAM II) support in addition to CAF ICC. The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the FCC Rules."

Finding #4: 47 C.F.R. § 32.2(a)(b) – Inaccurate Expenses

CONDITION

AAD obtained and examined documentation, including a sample of 19 expense transactions totaling $773,584, to determine whether the Beneficiary recorded its cost study balances, to the proper general ledger account for High Cost Program purposes. In the Buried Cable Expense account, the Beneficiary included 100% of the sales tax related to an expense that it shared with its affiliates rather than allocating the sales tax using a cost causative factor. Therefore, the Beneficiary inaccurately included $667 of sales tax in its cost study that should have been allocated to an affiliate. In the Circuit Equipment Expense account, the Beneficiary included maintenance expenses for January 1, 2015 to July 30, 2015 in its 2014 High Cost Program filing. AAD summarizes the exceptions below:

General Ledger Account[24]	Value of Samples With Exceptions	Portion of Samples With Exceptions
Buried Cable Expense (6423)	$29,150	$667
Circuit Equipment Expense (6232)	$31,260	$18,235
Total	**$60,410**	**$18,902**

The Beneficiary is required to report accurate expenses for High Cost Program purposes. Because the Beneficiary inaccurately included two expenses, AAD concludes that the balances reported for High Cost Program purposes were inaccurate.

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[24] *See* 47 C.F.R. §§ 32.6423 (2014) and 32.6232 (2014).

CAUSE

The Beneficiary did not have an adequate preparation, review and approval process to ensure that it recorded only appropriate expenses were recorded in the proper amount within the general ledger.

EFFECT

AAD calculated the monetary effect for this finding by subtracting the $18,902 of inaccurate expenses from the balances reported by the Beneficiary in the respective accounts in its High Cost Program filings. AAD summarizes the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$8,412
ICLS	$3,241
CAF ICC	$0
Total	**$11,653**

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary should enhance the preparation, review and approval processes governing the recording of expenses to ensure compliance with FCC Rules. The Beneficiary may find more information about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Please see (*Infinera Detail*) document. $31,260 that was paid to maintenace service in 2014 was booked to [Part 32 account,] 6232. This payment was a prepayment for services to be rendered from July 2014 to July 2015 as seen on pages 2 and 3 of the *Infinera Detail* document. It was highlighted as an exception on the basis that the 2015 portion of this prepayment should be removed from the expenses incurred in 2014 even though it was an annual payment. Page 1 of the *Infinera Detail* document shows the same transaction made in 2013, but this time for services redered between July 2013 to July 2014.

There was 12 months of expense in 2014 since there wasn't a prepayment at the beginning of the year and the end of the year. Technically we should have had a prepaid at the beginning of 2014 for the expense booked in 2013 and that we should have had a prepaid at the end of 2014 for the portion of expense related to 2015. Therefore, we only had 12 months of expense booked in 2014 due to consistent treatment between 2013 and 2014.

Again to say we do not have adequate procedures in place given we process 45,000-50,000 lines and several million dollars of expense transactions per year seems to be an overstatement. There are also transactions that come up and you make an interpretation and in hindsight may have done it differently. Given the size of the staff dedicated to accounting at Golden West we feel that we do a great job.

However, Golden West will take corrective actions by conducting a thorough review of its accounting procedures, and will communicate and discuss expenses allowable under FCC rules with its consulting firm to ensure compliance with FCC C.F.R. rules. Since January 2019, Golden West has received model based

Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding.

JSI has run the financial changes through their company specific cost study model. We are concerned that depreciation expense is being removed for non-applicable expense adjustments. JSI believes some of the difference may be in the application of the GDP-CPI used to create the cap on corporate expenses as well. The NACPL was frozen and applied to 2014 financials along with fluctuating Pro-rata Adjustment Factors that have all been considered in our calculations. Please see our calculations in the table [below].

Support Type	**Calculated in JSI's Company Specific Allocator (See "Finding #4 Calc" Document)**
HCL	$7,611
ICLS	$3,128
CAF ICC	$0
Total	**$10,739**

AAD RESPONSE

The Beneficiary's cost consultant performed its own monetary effect calculations according to its own cost study model. The documentation provided by the Beneficiary to support its cost consultant's calculation was not adequate and did not demonstrate what calculation inputs it adjusted to arrive at the updated monetary effect calculation. Further, AAD's calculation of monetary effect is based on FCC rules and High Cost Program requirements, which included application of the frozen NACPL, the applicable pro-rata adjustment and GDP-CPI factors and the $250 line cap. Therefore, AAD's calculation of the monetary effect remains unchanged.

The Beneficiary stated, "[s]ince January 2019, Golden West has received model based Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding." AAD agrees that the Beneficiary began receiving A-CAM II as of August 2019. AAD modifies its original recommendation to include the following statement, "Note as of August 2019, the Beneficiary began receiving Alternative Connect America Cost Model (A-CAM II) support in addition to CAF ICC. The Beneficiary should enhance the preparation, review and approval processes to ensure compliance with FCC Rules."

Finding #5: 47 C.F.R. § 64.901(b)(3)(i) – Inaccurate Allocation of Expenses

CONDITION

AAD obtained and examined the Beneficiary's documentation that supported its common cost allocation factors to determine whether the Beneficiary accurately calculated common cost adjustments for High Cost Program purposes. Pursuant to 47 § C.F.R. § 64.901(b)(3)(i), beneficiaries must allocate common cost categories based upon direct analysis of the origin of the cost themselves. The Beneficiary assigned common cost allocations between multiple study areas (i.e. intercompany affiliates) based on access lines counts. AAD noted the access line ratio assigned to the Beneficiary's study area was incorrect because errors within the calculations, resulting in an overstatement of common costs. AAD performed a recalculation of the Beneficiary's common cost allocations utilizing the updated access line counts and noted the following exceptions:

General Ledger Account[25]	Value of Exceptions (Over)/Under-Reported
General Purpose Computer Expense (6124)	$241
Plant Operations Administrative Expense (6534)	($2,598)
Customer Services (6623)	($9,453)
Executive Expense (6711)	$641
General and Administrative Expense (6720)	$1,615
Total	**($9,554)**

The Beneficiary is required to report accurate expenses for High Cost Program purposes. Because the Beneficiary inaccurately calculated the common cost allocations amongst its intercompany affiliates, AAD concludes that these expenses were not recorded in the proper amount to the proper general ledger accounts; and thus, the cost study balances for High Cost Program purposes were inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that allocations for intercompany common cost transactions are based on accurate calculations. The Beneficiary informed AAD that this issue occurred due to human error.[26]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the over-reported value of exceptions from accounts 6534 and 6623, totaling $12,051, and adding the under-reported value of exceptions to accounts 6124, 6711 and 6720, totaling $2,497, from the balances reported by the Beneficiary in its High Cost Program filings. AAD summarizes the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$1,155
ICLS	$2,092
CAF ICC	$0
Total	**$3,247**

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Golden West acknowledges that the CAM did match to the same ratios calculated during the inquiry process. However, please make note that since Golden West Telecommunications Cooperative is comprised of 6 study

[25] *See* 47 C.F.R. §§ 32.6124 (2014), 32.6534 (2014), 32.6623 (2014), 32.6711 (2014) and 32.6720 (2014).

[26] Beneficiary response to audit results summary, received December 24, 2019.

areas and there would basically be an offset by this impact on the other study areas. Their collective increase in funding would have been $6,988 due to this impact. Again, the small inconsistency due to the allocations has been corrected since the timeframe of this audit.

Since January 2019, Golden West has received model based Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding.

JSI has run the financial changes through their company specific cost study model. We are concerned that depreciation expense is being removed for non-applicable expense adjustments. JSI believes some of the difference may be in the application of the GDP-CPI used to create the cap on corporate expenses as well. The NACPL was frozen and applied to 2014 financials along with fluctuating Pro-rata Adjustment Factors that have all been considered in our calculations. Please see our calculations in the table [below].

Support Type	Calculated in JSI's Company Specific Allocator (See "Finding #5 Calc" Document)
HCL	$1,269
ICLS	$2,573
CAF ICC	$0
Total	**$3,842**

AAD RESPONSE

The Beneficiary stated in its response that "Golden West Telecommunications Cooperative is comprised of 6 study areas and there would basically be an offset by this impact on the other study areas." The scope of this audit was only the Golden West study area (391695). As a result of the audit, the Beneficiary would have to contact High Cost Program Management to determine whether refiling their cost studies/filings was an option.

The Beneficiary's cost consultant performed their own monetary effect calculations according to their own cost study model. The documentation provided by the Beneficiary to support their cost consultant's calculation was not adequate and did not demonstrate what calculation inputs were adjusted to arrive at their updated monetary effect calculation. Further, AAD's calculation of monetary effect is based on FCC rules and High Cost Program requirements, which included application of the frozen NACPL, the applicable pro-rata adjustment and GDP-CPI factors and the $250 line cap. Therefore, AAD's calculation of the monetary effect remains unchanged.

The Beneficiary stated, "[s]ince January 2019, Golden West has received model based Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding." AAD agrees that the Beneficiary began receiving A-CAM II as of August 2019. AAD modifies its original recommendation to include the following statement, "Note as of August 2019, the Beneficiary began receiving Alternative Connect America Cost Model (A-CAM II) support in addition to CAF ICC. The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules."

Finding #6: 47 C.F.R. § 69.104(g)(h) – Misclassified Access Lines

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing that supported the number and classification of access line counts reported for High Cost Program purposes to determine whether the correct number of access line counts as of December 31, 2014 were properly classified as Residential/Single-Line Business (Res/SLB) or Multi-Line Business (MLB) lines. AAD identified the following differences between the Beneficiary's access line counts as noted on the subscriber listing and the access line counts it reported:

	Res/SLB Lines	MLB Lines
Access Line Counts Reported	9,515	3,007
Access Line Counts Per Subscriber Listing	9,433	3,089
Difference: Over/(Under) Reported	**82**	**(82)**

Because the Beneficiary's supporting documentation did not agree to what it reported, AAD concludes that the Beneficiary reported inaccurate access lines.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report the correct number and classification of subscriber access line for High Cost Program purposes. The Beneficiary informed AAD that this issue occurred due to human error.[27]

EFFECT

AAD calculated the monetary effect for this finding by multiplying the difference between the $6.50 Res\SLB rate and the $9.20 MLB rate times the number of months between the loop count start date and December 31, 2014.

Support Type	Monetary Effect & Recommended Recovery
ICLS	$2,457
CAF ICC	$526
Total	**$2,983**

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must ensure it has an adequate system to assess the appropriate subscriber line charge data for High Cost Program purposes. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

[27] Beneficiary responses to audit results summary, received December 24, 2019.

BENEFICIARY RESPONSE

Golden West acknowledges some lines were incorrect in the billing system. Please recognize that Member Service and Sales Representatives do their best to determine the correct line designation being ordered by a customer based on what may be limited detail. There was some confusion during the inquiry process where Single Line Businesses were miscategorized as Multiline Business because of having the same name. However, they are indpendeantly owned and operated.

Golden West will ensure that line classification reported to NECA will match accordingly.

Since January 2019, Golden West has received model based Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding.

AAD RESPONSE

The Beneficiary stated, "[s]ince January 2019, Golden West has received model based Universal Service Support as an ACAM 2 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding." AAD agrees that the Beneficiary began receiving A-CAM II as of August 2019. AAD modifies its original recommendation to include the following statement, "Note as of August 2019, the Beneficiary began receiving Alternative Connect America Cost Model (A-CAM II) support in addition to CAF ICC. The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules."

Finding #7: 47 C.F.R. § 54.1305(i) – Inaccurate Loops

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing that supported the number of loops as of December 31, 2014 to determine whether the Beneficiary reported accurate loops for High Cost Loop (HCL) purposes. AAD compared the total loops reported on the Universal Service Fund (USF) Data Collection Form (HCL Form) with the total loops on the Beneficiary's subscriber listing. In our review of the Beneficiary's subscriber listing, AAD determined that 31 category 1.1 loops had a service start date after December 31, 2014, four category 1.1 loops had a service disconnect date prior to December 31, 2014, and one category 1.1 loop had neither a start date nor a disconnect date.[28] Thus, the total loop count for High Cost Loop support was over-reported by 36 loops. Because the Beneficiary's supporting documentation did not agree to the loop counts reported, AAD concludes that the Beneficiary's reported loop counts were inaccurate. The Beneficiary must report accurate loop counts for High Cost Program purposes.

[28] Stated within the Beneficiary's subscriber listing, documentation received October 13, 2017.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate loops for High Cost Program purposes. The Beneficiary informed AAD that this issue occurred due to human error.[29]

EFFECT

AAD calculated the monetary effect for this finding by deducting the inaccurate loops from the total amounts reported by the Beneficiary in respective accounts on the HCL Form. AAD summarizes the results below:

Support Type	Monetary Effect
HCL	$(38,310)
ICLS	$0
CAF ICC	$0
Total	**$(38,310)**

RECOMMENDATION

The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the Rules. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Golden West acknowledges the lines were incorrect in the billing system. Golden West will capture and retain a detailed subscriber listing at the end of each year to support the year end line counts. Golden West will implement monthly checks to ensure that line counts reported to NECA match the supporting documentation.

[29] Beneficiary responses to audit results summary, received December 24, 2019.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.320(b) (2014)	All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.
#1	47 C.F.R. § 32.2232 (2014)	(a) This account shall include the original cost of equipment which is used to reduce the number of physical pairs otherwise required to serve a given number of subscribers by utilizing carrier systems, concentration stages or combinations of both. It shall include equipment that provides for simultaneous use of a number of interoffice channels on a single transmission path. This account shall also include equipment which is used for the amplification, modulation, regeneration, circuit patching, balancing or control of signals transmitted over interoffice communications transmission channels. This account shall include equipment which utilizes the message path to carry signaling information or which utilizes separate channels between switching offices to transmit signaling information independent of the subscribers' communication paths or transmission channels. This account shall also include the original cost of associated material used in the construction of such plant. Circuit equipment may be located in central offices, in manholes, on poles, in cabinets or huts, or at other company locations. The investment in circuit equipment shall be maintained in the following subaccounts: 2232.1 Electronic and 2232.2 Optical. (b) This subaccount 2232.1 Electronic shall include the original cost of electronic circuit equipment. (c) This subaccount 2232.2 Optical shall include the original cost of optical circuit equipment. (d) Circuit equipment that converts electronic signals to optical signals or optical signals to electronic signals shall be categorized as electronic. (e) This account excludes carrier and auxiliary equipment and patch bays which are includable in Account 2231.2, Other Radio Facilities. This account also excludes such equipment which is an integral component of a major unit which is classifiable to other accounts. (f) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that relate to digital and analog. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Finding	Criteria	Description
#1	47 C.F.R. § 32.6620 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6621 through 6623.
#1	47 C.F.R. § 32.6535 (2014)	(a) This account shall include costs incurred in the general engineering of the telecommunications plant which are not directly chargeable to an undertaking or project. This includes developing input to the fundamental planning process, performing preliminary work or advance planning in connection with potential undertakings, and performing special studies of an engineering nature. (b) Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours. (See §32.2000(c)(2)(ii) of subpart C.)
#1, #3	47 C.F.R. § 32.6120 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6121 through 6124.
#1, #4	47 C.F.R. § 32.6232 (2014)	(a) This account shall include expenses associated with circuit equipment. Circuit equipment expenses shall be maintained in the following subaccounts: 6232.1 Electronic, 6232.2 Optical. (b) This subaccount 6232.1 Electronic shall include expenses associated with electronic circuit equipment. (c) This subaccount 6232.2 Optical shall include expenses associated with optical circuit equipment.
#1, #2, #3, #5	47 C.F.R. § 32.6720 (2014)	This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including

Finding	Criteria	Description
		actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, Non-operating income and expense, for lobbying expenses); (2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits; (3) Performing public relations and non-product-related corporate image advertising activities; (4) Administering relations, including negotiating contracts, with telecommunications companies and other utilities, businesses, and industries. This excludes sales contracts (see also Account 6611, Product management and sales); and (5) Administering investor relations. (e) Performing personnel administration activities. This includes: (1) Equal Employment Opportunity and Affirmative Action Programs; (2) Employee data for forecasting, planning and reporting; (3) General employment services; (4) Occupational medical services; (5) Job analysis and salary programs; (6) Labor relations activities; (7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs; (8) Personnel policy development; (9) Employee communications; (10) Benefit administration; (11) Employee activity programs; (12) Employee safety programs; and (13) Nontechnical training course development and presentation. (f) Planning and maintaining application systems and databases for general purpose computers. (g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims.

Finding	Criteria	Description
		(i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.
#7	47 C.F.R. § 54.1305(i) (2014)	The number of working loops for each study area. For universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing.
#2	47 C.F.R. § 32.6410 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6411 through 6441.
#2, #3	47 C.F.R. § 32.6230 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6231 and 6232.
#2, #4	47 C.F.R. § 32.2(a)(b) (2014)	(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure.

Finding	Criteria	Description
		(b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers. (c) In the course of developing the bases for this account structure, several other alternatives were explored. It was, for example, determined that, because of the variety and continual changing of various cost allocation mechanisms, the financial accounts of a company should not reflect an a priori allocation of revenues, investments or expenses to products or services, jurisdictions or organizational structures. (Note also §32.14 (c) and (d) of subpart B.) It was also determined that costs (in the case of assets) should not be recorded based solely upon physical attributes such as location, description or size. (d) Care has been taken in this account structure to avoid confusing a function with an organizational responsibility, particularly as it relates to the expense accounts. Whereas in the past, specific organizations may have performed specific functions, the future environment with its increasing mechanization and other changes will result in entirely new or restructured organizations. Thus, any relationships drawn between organizations and accounts would become increasingly meaningless with the passage of time. (e) These accounts, then, are intended to reflect a functional and technological view of the telecommunications industry. This view will provide a stable and consistent foundation for the recording of financial data. (f) The financial data contained in the accounts, together with the detailed information contained in the underlying financial and other subsidiary records required by this Commission, will provide the information necessary to support separations, cost of service and management reporting requirements. The basic account structure has been designed to remain stable as reporting requirements change.
#3	47 C.F.R. § 54.7(a) (2014)	A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

Finding	Criteria	Description
#3	FCC 15-133 (Released October 19, 2015)	The Commission reminds all eligible telecommunications carriers (ETCs) that receive support from the Universal Service Fund's high-cost mechanisms (whether legacy high-cost program support or Connect America Fund support) of their obligations to use such support only for its intended purposes of maintaining and extending communications service to rural, high-cost areas of the nation. Expenditure of legacy high-cost or Connect America support for any other purpose is misuse and may subject the recipient to recovery of funding, suspension of funding, enforcement action by the Enforcement Bureau pursuant to the Communications Act of 1934 or our rules, and/or prosecution under the False Claims Act.
#3	*Connect America Fund, et al.*, WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 (2018).	In this Report and Order, we adopt reforms to ensure that high-cost universal service support provided to eligible telecommunications carriers (ETCs) is used only for the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended pursuant to section 254(e) of the Act.10 We also adopt reforms to ensure that the investments and expenses that rate-of-return carriers recover through interstate rates are reasonable pursuant to section 201(b) of the Act.11 Our findings here do not prevent rate-of-return carriers from incurring any particular investment or expense, but simply clarify the extent to which investments and expenses may be recovered through federal high-cost support and interstate rates. The rules we adopt are prospective but the underlying obligations are preexisting and many of the rules we adopt today codify existing precedent. Our rules and the used and useful standard have long governed ETCs and rate-of-return carriers' behavior.12 Nothing we do in this Report and Order is intended to undermine our precedent.
#3	47 C.F.R. § 32.6530 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6531 through 6535.
#3	47 C.F.R. § 32.6710 (2014)	This account number shall be used by Class A telephone companies to summarize for reporting purposes the contents of Accounts 6711 and 6712. Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6711 and 6712.
#3	47 C.F.R. § 32.7300 (2014)	This account shall be used to record the results of transactions, events and circumstances affecting the company during a period and which are not operational in nature. This account shall include such items as non-operating taxes, dividend income and interest income. Whenever practicable, the inflows and outflows associated with a transaction or event shall be matched and the result shown as a net gain or loss. This account shall include the following: (a) Dividends on investments in common and preferred stock, which is the property of the company, whether such stock is owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled.

Finding	Criteria	Description
		(b) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1410, Other noncurrent assets, as a reduction of the carrying value of the investments. (c) Interest on securities, including notes and other evidences of indebtedness, which are the property of the company, whether such securities are owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled. It shall also include interest on cash bank balances, certificates of deposits, open accounts, and other analogous items. (d) For each month the applicable amount requisite to extinguish, during the interval between the date of acquisition and date of maturity, the difference between the purchase price and the par value of securities owned or held in sinking or other funds, the income from which is includable in this account. Amounts thus credited or charged shall be concurrently included in the accounts in which the securities are carried. (e) Amounts charged to the telecommunications plant under construction account related to allowance for funds used during construction. (See §32.2000(c)(2)(x).) (f) Gains or losses resulting from: (1) The disposition of land or artworks; (2) The disposition of plant with traffic; (3) The disposition of non-operating telecommunications plant not previously used in the provision of telecommunications services. (g) All other items of income and gains or losses from activities not specifically provided for elsewhere, including representative items such as: (1) Fees collected in connection with the exchange of coupon bonds for registered bonds; (2) Gains or losses realized on the sale of temporary cash investments or marketable equity securities; (3) Net unrealized losses on investments in current marketable equity securities; (4) Write-downs or write-offs of the book costs of investment in equity securities due to permanent impairment; (5) Gains or losses of non-operating nature arising from foreign currency exchange or translation; (6) Gains or losses from the extinguishment of debt made to satisfy sinking fund requirements; (7) Amortization of goodwill; (8) Company's share of the earnings or losses of affiliated companies accounted for on the equity method; and (9) The net balance of the revenue from and the expenses (including depreciation, amortization and insurance) of property, plant, and

Finding	Criteria	Description
		equipment, the cost of which is includable in Account 2006, Non-operating plant. (h) Costs that are typically given special regulatory scrutiny for ratemaking purposes. Unless specific justification to the contrary is given, such costs are presumed to be excluded from the costs of service in setting rates. (1) Lobbying includes expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances, or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises, or for the purpose of influencing the decisions of public officials. This also includes advertising, gifts, honoraria, and political contributions. This does not include such expenditures which are directly related to communications with and appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations; (2) Contributions for charitable, social or community welfare purposes; (3) Membership fees and dues in social, service and recreational or athletic clubs and organizations; (4) Penalties and fines paid on account of violations of statutes. This account shall also include penalties and fines paid on account of violations of U.S. antitrust statutes, including judgements and payments in settlement of civil and criminal suits alleging such violations; and (5) Abandoned construction projects. (i) Cash discounts on bills for material purchased shall not be included in this account.
#3	47 C.F.R. § 32.6613 (2014)	This account shall include costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services. This excludes nonproduct-related advertising, such as corporate image, stock and bond issue and employment advertisements, which shall be included in the appropriate functional accounts.
#3, #4	47 C.F.R. § 32.6423 (2014)	(a) This account shall include expenses associated with buried cable. (b) Subsidiary record categories shall be maintained as provided in §32.2423(a) of subpart C.
#3, #5	47 C.F.R. § 32.6623 (2014)	(a) This account shall include costs incurred in establishing and servicing customer accounts. This includes: (1) Initiating customer service orders and records; (2) Maintaining and billing customer accounts; (3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills;

Finding	Criteria	Description
		(4) Collecting and reporting pay station receipts; and (5) Instructing customers in the use of products and services. (b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by part 43 of this Commission's rules and regulations.
#5	47 C.F.R. § 64.901(b)(3)(i) (2014)	Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.
#5	47 C.F.R. § 32.6711 (2014)	This account shall include costs incurred in formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board designated officers of the company and their office staffs, e.g., secretaries and staff assistants.
#5	47 C.F.R. § 32.6124 (2014)	This account shall include the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. This excludes the cost of preparation of input data or the use of outputs which are chargeable to the accounts appropriate for the activities being performed. Also excluded are costs incurred in planning and maintaining application systems and databases for general purpose computers. (See also §32.6720, General and administrative.) Separately metered electricity for general purpose computers shall also be included in this account.
#5	47 C.F.R. § 32.6534 (2014)	(a) This account shall include costs incurred in the general administration of plant operations. This includes supervising plant operations (except as specified in §32.5999(a)(3) of this subpart; planning, coordinating and monitoring plant operations; and performing staff work such as developing methods and procedures, preparing and conducting training (except on-the-job training) and coordinating safety programs. (b) Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours. (See §32.2000(c)(2)(ii) of subpart C.)
#6	47 C.F.R. § 69.104(g)(h) (2014)	(g) A line shall be deemed to be a residential line if the subscriber pays a rate for such line that is described as a residential rate in the local exchange service tariff. (h) A line shall be deemed to be a single line business line if the subscriber pays a rate that is not described as a residential rate in the local exchange service tariff and does not obtain more than one such line from a particular telephone company.

ATTACHMENT D

HC2019BE018

Tri-County Telephone Association, Inc.

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC 2019BE018

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MOSSADAMS

EXECUTIVE SUMMARY

October 21, 2020

Teleshia Delmar, Audit and Assurance Division
Universal Service Administrative Company
700 12th St NW, Suite 900
Washington, DC 20005

Dear Teleshia Delmar:

This report represents the results of Moss Adams LLP's (we, us, our, and Moss Adams) work conducted to address the performance audit obligations relative to Tri-County Telephone Association, Inc. (Beneficiary), study area code 512296 for disbursements of $2,839,818 made from the federal Universal Service High Cost Program (HCP) (Disbursements) during the year ended December 31, 2018.

We conducted our performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form our conclusions. We believe the evidence we have obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. However, our performance audit does not provide a legal determination of the Beneficiary's compliance with specified requirements.

The objective of this performance audit was to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R Part 54, Subparts C, D, K, and M; Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B as well as the Federal Communications Commission's (FCC) Orders governing federal Universal Service Support for the HCP relative to the disbursements (collectively, the Rules).

Based on the test work performed, our audit disclosed five detailed audit findings with a scope limitation on a portion of the fifth finding, discussed in the Audit Results section. The scope limitation was related to our inability to calculate the monetary impact of one element of the finding as the factor used was out of date and data related to activity for the period under audit could not be obtained. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC Management or other officials and/or details about internal operating processes or investigations.

This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

Moss Adams LLP

Spokane, Washington
November 2, 2020

AUDIT RESULTS

Audit Results	Monetary Effect & Recommended Recovery
Finding #1: 47 C.F.R § 36.3(a) – Improper Application of Frozen Separations Categorization: The Beneficiary allocated the 2016 central office equipment to categories using separations factors frozen based on December 31, 2000 category amounts and did not update its separations factors in 2011 when the Beneficiary began offering DSL service, which was considered a new category.	$6,383
Finding #2: 47 C.F.R § 64.901(a), (b) – Inaccurate Assets and Expenses: The Beneficiary included a Part 64 nonregulated adjustment in the 2016 cost study to remove land and buildings used for nonregulated services in an amount greater than the specific costs identified in the continuing property records, resulting in understatement of regulated building assets of $153,982, accumulated depreciation of $67,542 and depreciation expense of $5,545.	$3,028
Finding #3: 47 C.F.R § 54.1305(i) – Inaccurate Loop Counts: The subscriber listing provided by the Beneficiary to substantiate its loop counts as of December 31, 2016 included 7 duplicate telephone numbers. As a result the Beneficiary overstated its loop counts reported in the HCP filings by 7 loops.	($3,490)
Finding #4: 47 C.F.R § 54.1305(h) and 32.4340(a), (e) – Inaccurate Deferred Income Taxes: The Beneficiary calculated its December 31, 2016 deferred tax liability using inaccurate values of property, plant and equipment and accumulated depreciation. In addition, the deferred tax liability calculation included balances unrelated to property, plant and equipment. These errors resulted in an understatement of year-end rate base of $80,146 and an understatement of average 2016 rate base of $34,229.	($5,501)
Finding #5: 47 C.F.R § 54.320(b) and § 64.901(a), (b) – Inaccurate Cost Allocations: The Beneficiary's indirect cost allocation factors to allocate costs between regulated and nonregulated activities were unsupported or based on outdated factors. As a result, regulated expenses included in the study were understated by $117,665.	($97,800)
Total	**($97,380)**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 512296 for the High Cost Program support amount noted in the chart below. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	ICLS (A)	HCL (B)	USAC Recovery Action (A) + (B) = (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$2,065	$4,318	$6,383	
Finding #2	($2,990)	$6,018	$3,028	
Finding #3	$0	($3,490)	($3,490)	
Finding #4	($1,333)	($4,168)	($5,501)	
Finding #5	($33,825)	($63,975)	($97,800)	
Mechanism Total	($36,083)	($61,297)	($97,380)	

As the above findings represent a net underpayment, the total recommended recovery (and thus, the recommended recovery for each individual finding) is zero as USAC policy is not to issue support in the case of a net underpayment. Thus, USAC recovery action is $0.

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunications services, including local service, and Internet to residential and business customers residing in areas of northern Wyoming. The company also provides non-regulated services such as cable television.

PROGRAM

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program (HCP), a component of the USF, ensures that consumers in rural areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. During the relevant audit period, the following support mechanisms were available to cost-based telecommunications carriers:

- High Cost Loop support (HCL): HCL is available for rural companies operating in services areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support replaced Local Switching Support is available to ILECs to assist them in recovering a portion of the revenue requirement related to switching investment that is not covered by the access recovery charge (ARC) billed to the end user or certain other charges billed to other carriers. This revenue requirement was frozen based on forecasted switching investment filed by eligible carriers in 2011 and is being reduced by 5% per year. CAF ICC disbursements began July 1, 2012.

- Interstate Common Line Support (ICLS): ICLS is available to ILECs and is designed to help its recipients cover common line revenue requirement while ensuring the subscriber line charge (SLC) remains affordable to customers. The common line revenue requirement is related to facilities that connect end users to the carrier's switching equipment. With the transition to Connect America Fund Broadband Loop Support (CAF BLS), 2018 was the last year for ICLS true up disbursements.

OBJECTIVE, SCOPE, AND PROCEDURES

OBJECTIVE

The objective of our performance audit was to evaluate the Beneficiary's compliance with 47 C.F.R. Part 54 Subparts C, D, K, and M; Part 36 Subpart F; Part 64 Subpart I; Part 69 Subparts D, E, and F; and Part 32 Subpart B, as well as the Federal Communications Commission's Orders governing federal Universal Service Support for the HCP relative to the disbursements for the 12-month period ended December 31, 2018.

This performance audit did not constitute an audit of financial statements in accordance with *Government Auditing Standards*. We were not engaged to, and do not render an opinion on the Beneficiary's internal control over financial reporting or internal control over compliance. We caution that projecting the results of our evaluation on future periods is subject to the risks that controls may become inadequate because of changes in conditions that affect compliance.

SCOPE

In the following chart, we summarize the High Cost Program support that was included in the scope of this audit:

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	12/31/2016	12/31/2018	$108,660
High Cost Loop (HCL)	12/31/2016	12/31/2018	$2,885,754
Interstate Common Line Support (ICLS)	12/31/2016	12/31/2018	($154,596)
Total			**$2,839,818**

The audit results include a scope limitation in calculating part of a monetary impact with Finding #5. See Finding #5 for further discussion on the limitation.

AUDIT METHODOLOGY

To accomplish our audit objective, we performed the following procedures:

Reconciliation

We reconciled the December 31, 2016 and 2015 trial balances to the separations and Part 64 study inputs and then to the applicable HCP Forms, obtained explanations for any variances, and evaluated the explanations for reasonableness

Rate Base and Investment High Cost Program Support Amount

We utilized an attribute sampling methodology[1] to select asset samples from central office equipment (COE) and cable and wire facilities (CWF) accounts. We made asset selections from continuing property record (CPR) detail. We determined that the balances for the selected assets were properly supported by underlying documentation such as work order detail, third-party vendor invoices, materials used sheets, and time and payroll documentation for labor and related costs.

We agreed the amounts charged to work order detail and verified the proper general ledger coding under Part 32. In addition, we verified the physical existence of select assets.

Tax Filing Status

We verified the tax filing status for the Beneficiary and obtained and reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness.

[1] Attribute sampling is a methodology where the selections made from a representative population are tested to determine if they contain predefined qualified characteristics (attributes).

Expenses

We utilized an attribute sampling methodology to select expense samples from operating expense accounts that impact ICLS and HCL. We made payroll selections from a listing of employees. We agreed the amounts from the employee paystubs to supporting documentation such as time sheets or time studies, labor distribution reports, and approved pay rates, and verified that the Beneficiary had coded the costs to the proper Part 32 account. We also reviewed benefits and clearings to ensure the Beneficiary's compliance with Part 32. In our review, we were unable to determine whether the Beneficiary's allocated based on 2011 time studies were coded to the proper Part 32 account. Also, the Beneficiary could not provide an updated 2016 time study. As a result, there was a scope limitation related to our inability to calculate a portion of the monetary impact of this issue on support received.

We made other disbursement selections from accounts payable transactions and agreed amounts to supporting documentation, reviewing for proper coding under Part 32. We selected a sample of manual journal entries to ensure reclassifications between expense accounts were appropriate and reasonable. We utilized MindBridge, a software program that uses data science and machine learning techniques to uncover outliers and anomalous transactions for 100% of the transactions within general ledger data, to identify keywords within the transaction descriptions to identify transaction for potential disallowed expenses and reviewed supporting documentation for a selection of transactions to determine if expenses were properly included or properly excluded from the cost study.

Affiliate Transactions

We performed procedures to assess the reasonableness of affiliate transactions that occurred during the period under audit. The affiliate transactions involved the transfer of assets or the provision of service with its wholly owned subsidiary. We noted the Beneficiary is 100% owned by BHT Holdings, Inc. The Beneficiary is also affiliated, through common ownership, with BHT Investments Holdings, LLC, which has 100% ownership in BHT Investments, LLC, TCT Investments Cellular, LLC, and Gallatin Wireless, LLC. We selected a sample of various transactions to determine whether the Beneficiary had recorded the transactions in accordance with 47 C.F.R. Section 32.27. The Beneficiary entered into the following transactions with its affiliates during the period under audit:

- Switched access charges priced at tariff rates
- Wholesale DSL charges priced at tariff rates
- Equipment rental income priced at fair value and charged to nonregulated accounts
- Consulting services priced at prevailing price and charged to nonregulated accounts

Revenues and Subscriber Listings

We tested general ledger accounts, subscriber bills, and other documentation to verify the accuracy and existence of revenues. We utilized an attribute sampling methodology to select revenue samples from subscriber listings. We tested subscriber bills with procedures to ensure the lines were properly classified as residential, single-line business, or multi-line business. In addition, we reconciled the ICLS related revenues reported to the National Exchange Carrier Association (NECA) to the general ledger and billing support, and we reconciled switched related revenues reported to USAC as part of the CAF ICC filing to general ledger and billing support. We obtained subscriber listings and billing records to determine the lines or loops reported in the HCP filings agreed to supporting documentation. We reviewed the subscriber listings for duplicate lines, invalid data, and nonrevenue producing lines.

Part 64 Allocations

We (1) reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and corresponding data inputs used to calculate the factors, (2) recalculated the material factors, and (3) recalculated the material amounts allocated. We also evaluated the reasonableness of the assignment between regulated, nonregulated, and common costs and the apportionment factors as compared to the regulated and nonregulated activities performed by the Beneficiary.

Central Office Equipment (COE) and Cable and Wire Facilities (CWF) Categorization

We reviewed the Beneficiary's methodology for categorizing assets including a comparison to network diagrams. We reconciled the COE and CWF amounts to the cost studies and agreed them to the applicable HCP Forms. In addition, we physically inspected a sample of COE assets and tested route distances of CWF for reasonableness.

Revenue Requirement

We recalculated the Beneficiary's revenue requirement using our cost allocation software program and reviewed the calculation of the revenue requirement including the applications of Part 64, 36, and 69 for reasonableness. In addition, we traced cost study adjustments that were not recorded in the general ledger to supporting documentation and reviewed them for reasonableness.

DETAILED AUDIT FINDINGS

Our performance audit resulted in the following detailed audit findings and recommendations with respect to the Beneficiary's compliance with the Rules, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54, Subparts C, D, K, and M, Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B, as well as the FCC's orders governing federal Universal Service Support applicable to the disbursements made from the HCP during the year ended December 31, 2018.

Finding #1: 47 C.F.R § 36.3(a)[2]– Improper Application of Frozen Separations Categorization

Condition

We obtained and reviewed the Beneficiary's frozen separations factors and cost study adjustments and related supporting schedules to determine whether the Beneficiary reported amounts accurately for High Cost Program purposes. Included in the cost study adjustments was an adjustment to remove DSL loop plant. We inquired of the Beneficiary as to the purpose of the cost study adjustment and we identified the following:[3]

- The Beneficiary began offering DSL in 1998, prior to it being an approved regulated service, and therefore treated DSL loop plant as non-regulated.
- The Beneficiary stated that it did not become aware of the FCC's 2005 order,[4] under which the FCC allowed beneficiaries to treat DSL as regulated special access until 2008; and as a result, the Beneficiary filed a waiver seeking approval to include its nonregulated DSL loop plant as regulated plant in future cost studies.[5]
- In 2011, the FCC had not approved the waiver and the Beneficiary began to report in its HCP filings any new investment in DSL loop plant as regulated plant and continued to treat all prior DSL loop plant as nonregulated plant.
- The Beneficiary did not update its separation factors in 2011 when the Beneficiary began offering DSL as a regulated service.
- The Beneficiary allocated the 2016 central office equipment to categories using separations factors frozen based on December 31, 2000 category amounts instead of creating a new category in 2011 which was considered a new category.

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[2] *See 2001 Separations Freeze Order*, FCC 01-162, 16 FCC Rcd 11382, para. 53 (2001); *2006 Separations Freeze Extension Order and Further Notice*, FCC 06-70, 21 FCC Rcd 5516 (2006); *2009 Separations Freeze Extension Order and Second Referral*, FCC 09-44, 24 FCC Rcd 6162 (2009); *2010 Separations Freeze Extension Order*, FCC 10-89 25 FCC Rcd 6046 (2010); *2011 Separations Freeze Extension Order*, FCC 11-71, 26 FCC Rcd 7133 (2011); *2012 Separations Freeze Extension Order*, FCC 12-49, 27 FCC Rcd 5593 (2012); *2014 Separations Freeze Extension Order*, FCC 14-91, 29 FCC Rcd 6470 (2014. *See also 2017 Separations Freeze Extension Order*, FCC 17-55, 32 FCC Rcd 4219 (2017); *2018 Separations Freeze Extension Order*, FCC 18-182, 33 FCC Rcd 12743 (2018).

[3] Don Jackson, VP of Regulatory, provided the information included in the bullet points detailing the history.

[4] *See also 2005 Wireline Broadband Order*, FCC 05-150, 20 FCC Rcd 14853 (2005).

[5] Petition of Tri-County Telephone, Inc. for Waiver of Accounting Rules (filed Oct. 22, 2008).

Pursuant to 47 C.F.R § 36.3, the Beneficiary was required to (1) allocate its Central Office Equipment for which it had no separations allocation factors for the twelve-month period ending December 31, 2000, and (2) apportion that investment among the jurisdictions in accordance with the separations procedures in effect as of December 31, 2000 for the duration of the freeze. Thus, the Beneficiary was required to update frozen categories to include the new category in 2011.

Adjusting the frozen separation categorization would have resulted in the following:

Category	2000 Frozen COE Allocation Percentage	Updated 2011 COE Allocation Percentage	Change to 2016 COE Allocation
4.11 DSL	0.0000%	0.2568%	$35,644
4.121 EAS	0.1632%	0.1628%	58
4.13 SUBS	98.1596%	97.9076%	(34,988)
4.22 WB	0.4381%	0.4370%	156
4.23 TOLL/SS	1.2390%	1.2358%	442
Total	100.0000%	100.0000%	$0

CAUSE

The Beneficiary did not update categories because it was waiting for the FCC to respond to the waiver request discussed above seeking approval to include property, plant and equipment related to DSL loop plant as part of the regulated rate base for DSL loop plant costs it previously classified as nonregulated investment.

EFFECT

The exception identified above resulted in an overstatement of central office equipment costs allocated to category 4.13 and an understatement of central office equipment costs allocated to category 4.11, which impacted HCL and ICLS disbursements. To calculate the impact to HCL and ICLS disbursements for the finding noted above, we applied the revised separations factors to allocate the Beneficiary's cost study balances reported in its High Cost filings. The Beneficiary provided the revised separations factors. We calculated the factors by categorizing the assets in service in 2011, assuming that the new category had been in place when the Beneficiary first offered DSL. As summarized below, we estimated the monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment totaling $6,383:

Support Type	Monetary Effect & Recommended Recovery
ICLS	$2,065
HCL	$4,318
Total	**$6,383**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above.

We recommend that the Beneficiary review FCC orders to determine if changes in the Rules are applicable to them and ensure filings are prepared in accordance with the Rules. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Tri County Telephone Association had a waiver filed with the FCC to include DSL investment that was previously removed via a part 64 adjustment when the USF filings under review were completed. The waiver was filed in 2008 and was not granted until August 2017. Tri County started offering DSL prior to 2001. At the time there was no clear rule or interpretation to determine DSL service was Interstate, local, or non-regulated. During the time before the waiver was granted, TCT left the original frozen allocations in place. Because frozen categories can only be adjusted one time, when a new service is added, we felt it was more appropriate to wait until the waiver was addressed to include all of the DSL investment in question, rather than just the new DSL investment added after 2008. All USF filings completed after the waiver was granted include a DSL allocation, and reflect the waiver portion of the DSL investment, so no future action is needed to address the finding.

MOSS ADAMS RESPONSE

While all USF filings completed after the waiver was granted include a DSL allocation, reflect the waiver portion of the DSL investment, and no future actions are required for this finding, we reiterate our recommendation that USAC Management seek the recovery of the amounts identified in the Effect section. We also recommend that the Beneficiary review all FCC orders for changes in the Rules and update its procedures accordingly to ensure filings are prepared in accordance with the Rules.

Finding #2: § 64.901(a), (b) – Inaccurate Assets and Expenses

Condition

We obtained and reviewed the Beneficiary's cost study adjustments and related supporting schedules to determine whether the Beneficiary reported amounts accurately for High Cost Program purposes. In its 2016 cost study, the Beneficiary included a Part 64 nonregulated adjustment to remove land and buildings used for nonregulated services. The adjustment was larger than the actual amounts identified in the Beneficiary's continuing property records. Specifically, the rate base amount allocated to nonregulated accounts and removed from the cost study was $153,982 greater than the specific costs identified in the continuing property records.

This resulted in the understatement of regulated general support assets of $153,982, accumulated depreciation of $67,542 and depreciation expense of $5,545 included in the 2016 HCP filings.

CAUSE

The Beneficiary's process to prepare, review and approve the 2016 HCP filings did not identify the proper balance of nonregulated assets that should not have been removed from regulated balances.

EFFECT

The exception identified above resulted in an understatement of regulated assets, accumulated depreciation and depreciation expense, which impacted HCL and ICLS disbursements. To calculate the impact to HCL and ICLS disbursements for the finding noted above, we adjusted the regulated general support asset, accumulated depreciation and depreciation expense balances included in the Beneficiary's cost study balances as reported in its High Cost filings. As summarized below, we estimated the monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment totaling $3,028:

Support Type	Monetary Effect & Recommended Recovery
ICLS	($2,990)
HCL	$6,018
Total	**$3,028**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above.

We recommended that the Beneficiary implement processes to prepare, review and approve cost study adjustments to determine they agree to underlying support and are adjusting regulated balances appropriately. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Tri County Telephone Association agrees with the listed condition and will reflect the changes to our part 64 building adjustments in our future USF and Cost Study filings.

Finding #3: 47 C.F.R. § 54.1305(i) – Inaccurate Loop Counts

Condition

We obtained and examined the subscriber listing provided by the Beneficiary to substantiate its loop counts as of December 31, 2016 reported in its High Cost filings and determined that it included seven duplicate telephone numbers. As a result, the Beneficiary overstated its loop counts reported in the HCP filings by seven loops.

CAUSE

The process to review, approve, and prepare HCP filing support schedules involved querying the billing database for customers and did not include review of queried data to identify duplicate telephone numbers which were included in the loop counts reported in HCP filings.

EFFECT

The exception identified above resulted in an overstatement of the number of loops used in the HCP filings, which impacted HCL disbursements. We calculated the impact to HCL disbursements by revising the number of loops reported in the Beneficiary's High Cost Program filings. There was no impact to ICLS disbursements as the study was based on frozen categorization and changes in loops do not impact the ICLS revenue requirement. As summarized below, we estimated the monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2018, to be an underpayment of $3,490:

Support Type	Monetary Effect & Recommended Recovery
HCL	($3,490)

RECOMMENDATION

We recommend that the Beneficiary implement policies and procedures to ensure loop counts reported in HCP filings exclude duplicate telephone numbers. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Tri County Telephone Association agrees with the listed condition. We will correct these duplicate loop counts in our future USF and Cost Study filings.

Finding #4: 47 C.F.R. § 54.1305(h) and 32.4340(a), (e) – Inaccurate Deferred Income Taxes

Condition

Moss Adams obtained and reviewed the Beneficiary's 2016 deferred income tax schedule to determine whether the Beneficiary reported its deferred income tax liabilities accurately for High Cost Program purposes. The Beneficiary's deferred income tax liabilities included in the cost study totaled $1,180,600 and included deferred income tax liabilities unrelated to property, plant and equipment totaling $72,726.

In addition, the Beneficiary overstated by $7,420 its 2016 deferred income tax liability included in the 2016 cost study. Specifically, the book versus tax timing differences related to depreciation were calculated based on regulated property, plant and equipment net book value of $19,140,660. The regulated property, plant and equipment included in HCP filings and the general ledger had a net book value of $19,118,835. Had the Beneficiary used the accurate net book value of regulated property, plant and equipment to calculate the deferred income tax liability, the deferred income tax liability would have been $7,420 lower than amounts recorded in the general ledger.

The combination of both errors resulted in an understatement of 2016 rate base of $80,146 and an understatement of average rate base of $34,229.

CAUSE

The Beneficiary did not review the regulated deferred tax income liability calculation to verify the accuracy of the calculation for inclusion in its 2016 cost study and HCP filings.

EFFECT

The exception identified above resulted in an overstatement of the year-end and average balance of the deferred income tax liability, which impacted HCL and ICLS disbursements. We calculated the impact to HCL and ICLS disbursements by applying the revised deferred tax liability in the Beneficiary's High Cost Program filings. As summarized below the, we estimated the monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2018, to be an underpayment of $5,501:

Support Type	Monetary Effect & Recommended Recovery
HCL	($4,168)
ICLS	($1,333)
Total	**($5,501)**

RECOMMENDATION

We recommend that the Beneficiary review the regulated deferred tax liability calculation to determine accurate net book value of property, plant and equipment is used to calculate the regulated deferred tax liability, and only timing differences related to property, plant and equipment are included in the calculation of the year-end and average deferred tax liability balance. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/..

BENEFICIARY RESPONSE

Tri County Telephone Association agrees with the listed condition. We will review the deferred tax liability calculation and include only the appropriate operating portions of deferred tax liability in our future USF and Cost Study filings.

Finding #5: 47 C.F.R. § 54.320 (b) and § 64.901(a), (b) – Inaccurate Cost Allocations

Condition

We obtained and reviewed the Beneficiary's regulated cost allocation factors and documentation supporting the allocation factors to determine whether the Beneficiary made cost allocations based on cost causative factors when costs were not directly assignable to regulated and nonregulated activities. The Beneficiary utilizes one accounting system and chart of accounts for its business which do not align directly with Part 32 accounts. However, the Beneficiary analyzes each trial balance account and directly assigns costs to a regulated Part 32 account when possible. Accounts that cannot be directly assigned are then allocated based on cost causative factors. Additional costs are allocated to nonregulated activities based on nonregulated customers as a percent of total customers. Based on our review, the indirect cost allocation factors used by the Beneficiary to allocate costs between regulated and nonregulated activities were unsupported or based on outdated inputs.

Specifically, the Beneficiary utilized the following indirect cost allocation factors:

Cost	Indirect Cost Allocation Factor Utilized	Updated Cost Allocation Factor
Operations manager payroll	Unknown labor distribution	2016 Department labor as a percent of total labor for all departments he managed
Network payroll	Unknown labor distribution	2016 labor distribution by task
Training travel costs	Unknown labor distribution	2016 Department labor as a percent of total labor for all departments
Customer service payroll	2011 time study	2016 time study not feasible
Outside plant payroll	2011 time study	2016 time study
Additional cost	2013 customer counts	2016 customer counts

With the exception of customer service payroll (see Table above), had the Beneficiary used updated indirect cost allocation factors, it would have experienced increases or decreases to its 2016 regulated expense accounts, as indicated below:

Regulated Account	Increase (Decrease)
6110	$935
6120	18,151
6210	(503)
6230	4,224
6410	52,345
6510	4,193
6530	(9,058)
6610	3,157
6620	6,001
6720	38,220
Total	**$117,665**

As recreating a 2016 time study was not feasible given the changes in employees' job functions over time and changes in the Beneficiary's operations, the Beneficiary was unable to provide updated support for the customer service payroll allocations. Therefore, we were unable to determine, had the time study been updated, whether the customer service expenses included in the 2016 cost study and HCP filings were inaccurate had the time study been updated.

CAUSE

The Beneficiary did not have a system to collect, report, or monitor data to ensure factors used to allocate costs between regulated and nonregulated accounts were assessed regularly to determine if updates were required and the Beneficiary did not have a system to maintain adequate documentation to support allocation of certain costs.

EFFECT

The quantifiable exception identified above resulted in an understatement of regulated expenses of $117,665, which impacted HCL and ICLS disbursements. We calculated the impact to HCL and ICLS disbursements by applying the revised expense account balances utilizing the updated cost allocation factors in the Beneficiary's High Cost Program filings. We were unable to calculate a monetary impact related to the customer service cost allocation as the Beneficiary was unable to provide documentation to confirm that the allocations were accurate[6]. As summarized below the, we estimated the monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2018, to be an underpayment of $97,800:

Support Type	Monetary Effect & Recommended Recovery
ICLS	($33,825)
HCL	($63,975)
Total	**($97,800)**

RECOMMENDATION

For the 2018 disbursements, we recommend that the Beneficiary provide documentation for an alternate study to USAC Management to confirm that the allocations used by management and reported for High Cost Program purposes were reasonable. For subsequent disbursements, we recommend that the Beneficiary implement policies and procedures to ensure it has an adequate system in place to update time studies, labor allocations, and customer counts use in development of the cost causative allocation factors. In addition, the Beneficiary should document the methodology for such allocations and retain all underlying support. Further, the Beneficiary may learn more about the reporting requirements and record retention policies on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Tri County Telephone Association agrees with the listed condition. We will update the expense allocation methods in our future USF and Cost Study filings to comply with the finding.

MOSS ADAMS RESPONSE

While the Beneficiary acknowledges that the expense allocation methods in the future USF and cost study filings will be updated, we reiterate our recommendation that the Beneficiary should provide documentation to USAC Management to confirm that the allocations used by the Beneficiary and reported for High Cost purposes were reasonable.

[6] We consider this issue to be a scope limitation on the calculation of monetary impact.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 36.3(a) (2016)	(a) Effective July 1, 2001, through June 30, 2017, all local exchange carriers subject to part 36 rules shall apportion costs to the jurisdictions using their study area and/or exchange specific jurisdictional allocation factors calculated during the twelve month period ending December 31, 2000, for each of the categories/sub-categories as specified herein. Direct assignment of private line service costs between jurisdictions shall be updated annually. Other direct assignment of investment, expenses, revenues or taxes between jurisdictions shall be updated annually. Local exchange carriers that invest in telecommunications plant categories during the period July 1, 2001, through June 30, 2017, for which it had no separations allocation factors for the twelve month period ending December 31, 2000, shall apportion that investment among the jurisdictions in accordance with the separations procedures in effect as of December 31, 2000 for the duration of the freeze.
#1	*2001 Separations Freeze Order*, FCC 01-162, 16 FCC Rcd 11382, para. 53 (2001)	53. We do, however, recognize that the two exceptions proposed by the commenters present unique circumstances that may occur with some frequency. Accordingly, we adopt rules to address these two exceptions consistent with the recommendations of the commenters. Rate of-return carriers who incur new categories of investment during the freeze shall calculate new factors for the investment and then freeze the new factors for the duration of the freeze. We agree with USTA that, without this exception, some rate-of-return carriers may be precluded from allocating their costs for recovery of the new investment from the proper jurisdictions. We also recognize that carriers convert from average-schedule settlement status to cost-based settlement status every year. Rate-of-return carriers who convert from average schedule to cost company status during the freeze shall calculate new factors based on the twelve-month period immediately following the conversion and then freeze the new factors for the remainder of the freeze. We believe that providing this exception will expedite the process for those carriers by eliminating the need for waiver requests to calculate new factors following conversion.

#2, #5	47 C.F.R. § 64.901(a),(b) (2016)	**(a)** Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. **(b)** In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. **(1)** Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service. **(2)** Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. **(3)** Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: **(i)** Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. **(ii)** When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. **(iii)** When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities. **(4)** The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.

#3	47 C.F.R. § 54.1305(i) (2016)	**(i)** The number of working loops for each study area. For universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing.
#4	47 C.F.R. § 54.1305(h) (2016)	**(h)** Unseparated accumulated depreciation and noncurrent deferred federal income taxes attributable to local unseparated telecommunications plant investment. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing.
#4	47 C.F.R. § 32.4340(a), (e) (2016)	**(a)** This account shall include the balance of income tax expense related to noncurrent items from regulated operations which have been deferred to later periods as a result of comprehensive interperiod tax allocation related to temporary differences that arise from regulated operations. **(e)** Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that are property related and those that are nonproperty related. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.
#5	47 CFR § 54.320 (b) (2016)	**(b)** All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.

Summary of Low Income Support Mechanism Beneficiary Audit Reports Released: November 2020

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Verizon Communications Inc. **Attachment A**	1	• <u>FCC Form 497 and NLAD Variance</u> – The Holding Company claimed subscribers on the audit period FCC Forms 497 who were not active in NLAD for the applicable month.	$12,520,263	$15,041	$15,041	Y
Total	**1**		**$12,520,263**	**$15,041**	**$15,041**	

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ATTACHMENT A

LI2018SR002

Verizon Communications Inc.

Limited Scope Audit on Compliance with the Federal Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2018SR002

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EXECUTIVE SUMMARY

October 21, 2020

Ms. Evonia Bennett
Verizon Communications, Inc.
One Verizon Way, VC53S312F
Basking Ridge, NJ 07920

Dear Ms. Bennett,

DP George & Company, LLC (DPG) audited the compliance of Verizon Communications, Inc. (Holding Company), for all study area codes (SACs) where the Holding Company claimed subscribers during calendar year 2017 (the audit period), using regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Holding Company's management. DPG's responsibility is to make a determination regarding the Holding Company's compliance with the Rules based on our limited scope audit.

DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for DPG's findings and conclusions based on the audit objectives.

Based on the test work performed, our audit disclosed one detailed audit finding (Finding) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with Universal Service Administrative Company (USAC) management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Holding Company, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

We appreciate the cooperation and assistance extended by your staff during the audit.

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

cc: Teleshia Delmar, USAC Vice President, Audit and Assurance Division
Radha Sekar, USAC Chief Executive Officer
James Lee, Acting USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery	Extrapolated Value ($)
Finding #1: 47 C.F.R. § 54.404(b) – FCC Form 497 and NLAD Variance. The Holding Company claimed subscribers on the audit period FCC Forms 497 who were not active in NLAD for the applicable month.	$15,041	$15,041
Total Net Monetary Effect	**$15,041**	**$15,041**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery of the Lifeline Program support amount noted in the chart above. USAC management will issue a separate memorandum to the Beneficiary to address the audit results.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Holding Company complied with the Rules.

SCOPE

The Holding Company claimed 1,353,510 subscribers and $12,520,263 in support during the calendar year 2017 period covered by our audit. The following chart details the subscriber claims and support received amounts by Study Area Code (SAC).

SAC Number	State	Subscribers Claimed	Amount of Support
155130	NY	715,760	$6,621,065.00
165120	NJ	224,605	$2,077,598.00
115112	MA	172,721	$1,597,672.00
175000	PA	142,519	$1,318,303.00
585114	RI	25,744	$238,134.00
185030	MD	23,570	$218,024.00
170169	PA	16,846	$155,828.00
195040	VA	11,953	$110,551.00
575020	DC	8,633	$79,857.00
565010	DE	3,006	$27,806.00
449007	TX	2,926	$27,066.00
190233	VA	1,693	$15,663.00
170170	PA	1,621	$14,996.00
170201	PA	1,078	$9,973.00
190479	VA	735	$6,800.00
389007	ND	46	$429.00
389008	ND	36	$336.00
159015	NY	12	$108.00
389010	ND	2	$18
359071	IA	2	$18

SAC Number	State	Subscribers Claimed	Amount of Support
389006	ND	2	$18
359070	IA	0	$0
389009	ND	0	$0
159014	NY	0	$0
Total		**1,353,510**	**$12,520,263**

Notes:
The amount of support listed above reflects disbursements as of the commencement of the audit.

BACKGROUND

The Holding Company operates as an incumbent eligible telecommunications carrier (ETC) for SACs 115112, 155130, 165120, 170169, 170170, 170201, 175000, 185030, 190233, 190479, 195040, 565010, 575020, and 585114; and operates as a competitive ETC for SACs 159014, 159015, 359070, 359071, 389006, 389007, 389008, 389009, 389010 and 449007 in the territories identified in the Scope table above.

PROCEDURES

DPG performed the following procedures:

A. FCC Form 497
DPG obtained and tested the Holding Company's FCC Forms 497 (Form(s) 497) for accuracy by comparing the amounts claimed against the subscriber listings provided by the Holding Company.

B. Program Eligibility Documentation
DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to verify program eligibility. DPG obtained and tested eligibility documentation for a sample of 300 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households
DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to comply with the Independent Economic Household (IEH) requirements. DPG obtained and tested documentation for a sample of 76 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. NLAD/State Database Validation
DPG obtained the Holding Company's subscriber listings and used computer assisted auditing techniques to analyze the listings and determine whether the number of subscribers claimed each month agreed to the number of eligible subscribers recorded in NLAD or the comparable state database for the same month.

E. Transferred Subscribers
DPG obtained an understanding of the Holding Company's enrollment, certification, and de-enrollment processes relating to the Lifeline Program to determine the steps taken by the Holding Company to transfer (in or out) subscribers. DPG obtained and tested enrollment documentation for a sample of 143 Transferred In subscribers to determine whether the subscribers were transferred in accordance with the Rules. DPG also obtained documentation for all NLAD variance identified in Procedure D above where a subscriber was claimed in a given Form 497 month but listed as Transferred Out in NLAD for the same month.

F. Deceased Subscribers

DPG obtained the Holding Company's subscriber listings and worked with USAC to identify currently deceased subscribers. DPG selected a sample of 129 subscribers who were deceased and were claimed after their date of death. DPG obtained and tested certification, recertification, and usage documentation for these subscribers to determine whether the Holding Company complied with the Rules while continuing to claim the subscriber.

G. Duplicate Subscribers

DPG obtained the Holding Company's subscriber listings and used computer assisted auditing techniques to analyze the listings and determine whether duplicate subscribers where included on the listings. DPG obtained and reviewed Holding Company explanations and copies of eligibility or other documentation to determine whether the subscriber represented a duplicate claim.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.404(b) – Form 497 and NLAD Variances

CONDITION

DPG obtained and analyzed the Holding Company's subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Holding Company reported the correct number of qualifying subscribers on the Forms 497.[1] Using the enrollment, transfer in, de-enrollment, and transfer out dates in NLAD, DPG compared the subscribers identified as active in NLAD against the subscribers who were claimed on the Forms 497 during the audit period. DPG identified 1,626 instances for 1,077 subscribers where a subscriber was claimed and was not identified as active in NLAD for the month claimed. DPG also identified 7,458 instances for 708 subscribers where the subscriber was recorded in NLAD but was not listed under the same SAC for which they were claimed.

For the 1,626 instances, DPG determined that 781 occurred in New York SAC 155130; 253 occurred in Massachusetts SAC 115112; 250 occurred in Pennsylvania SACs 170169, 170170, 170201, and 175000; and 178 occurred in New Jersey SAC 165120. The remaining 164 instances occurred under multiple SACs in the District of Columbia, Delaware, Maryland, Rhode Island, and Virginia.

DPG further categorized the variances as follows:

Subscribers not Active in NLAD

Variance Category	Number of Subscribers	Number of Instances
Subscriber did not have a valid NLAD transaction	287	549
Subscriber was transferred-out in NLAD before the 1st day of the month	372	398
Subscriber was de-enrolled in NLAD before the 1st day of the month	165	380
Subscriber was enrolled in NLAD after the 1st day of the month	232	278
Subscriber was transferred-in in NLAD after the 1st day of the month	21	21
Total	**1,077**	**1,626**

[1] *See* 47 C.F.R. §§ 54.404(b)(2), (6), (8), (10); 407(a); 417(a) (2016)

Subscribers Active under an Incorrect SAC in NLAD

Variance Category	Number of Subscribers	Number of Instances
Subscriber was recorded in NLAD under the incorrect Pennsylvania SAC	661	6,939
Subscriber was recorded in NLAD under the incorrect Virginia SAC	47	519
Total	**708**	**7,458**

The Holding Company is required to transmit requisite information for each new and existing Lifeline subscriber to NLAD and correspondingly, to update its records for subscribers identified in NLAD as transferred.[2] The Holding Company must also report the number of qualifying subscribers on the Form 497 based on subscribers who have met all requirements to be eligible for Lifeline Program support and for whom the Holding Company provides Lifeline service.[3]

When analyzing the Form 497 data, DPG noted that the count of subscribers claimed on the Form 497 for each SAC was consistently lower than the base subscriber listing count provided by the Holding Company. The Holding Company indicated that it applied a holdback percentage during 2017 when submitting its Form 497 claims.

Lifeline support is provided based on the number of actual qualifying low income consumers the Holding Company serves directly as of the first day of the month.[4] The Form 497 submission also requires the Holding Company to certify that the data being submitted is accurate and complete.[5] The application of a holdback percentage to determine the number of Lifeline subscribers claimed on the Form 497 results in an estimated count of qualifying low income consumers and not the actual count required by the Rules.

CAUSE

The Holding Company did not have an adequate system in place for monitoring NLAD data to report the correct number of qualifying Lifeline subscribers on the Form 497. The Holding Company also voluntarily applied a holdback percentage when preparing the Form 497 as a proactive measure to adjust for subscribers who may subsequently be identified as ineligible for the data month submitted.

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[2] *See* 47 C.F.R. § 54.404(b)(6), (8), (10) (2016)

[3] *See* 47 C.F.R. § 54.407(a) (2016)

[4] *See* 47 C.F.R. § 54.407(a) (2016)

[5] *See* Lifeline Worksheet, FCC Form 497, OMB 3060-0819, at 2, line 19 (July 2016)

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline (2017)	$15,041	$15,041

DPG calculated the monetary effect by multiplying the 1,626 instances where the 1,077 subscribers were claimed on the Form 497 and not listed as active in NLAD by the support amount requested on the applicable 2017 Form 497 ($9.25) and rounded to the nearest whole dollar.

There is no monetary effect for the 6,939 instances where subscribers were recorded in NLAD under the incorrect Pennsylvania SAC or the 519 instances where subscribers were recorded in NLAD under the incorrect Virginia SAC as these subscribers were recorded in NLAD. However, recording subscribers under the incorrect SAC in NLAD diminishes the capability to use NLAD as a reconciling tool.

There is also no monetary effect for applying a holdback percentage to the Form 497 claim. However, the number of subscribers claimed on the audit period Form 497 becomes an estimated representation and not an actual representation of the number of qualifying low income subscribers served as of the first day of the month. The lack of an actual qualifying low income subscriber count makes it impossible to determine specific subscribers who should be removed in NLAD in conjunction with the holdback. The application of the holdback also diminishes the value of the established Form 497 revision process of accounting and adjusting for subscribers identified as ineligible after the initial Form 497 submission.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount recommended in the Effect section above. Current Lifeline Rules require Holding Companies to file Form 497 claims based on the number of subscribers in NLAD as of the 1st day of the month and do not allow the application of a holdback percentage when filing. Therefore, we make no recommendations regarding the NLAD monitoring process or the Form 497 holdback percentage.

HOLDING COMPANY RESPONSE

DPG reports that it "identified 1,626 instances for 1,077 subscribers where a subscriber was claimed and was not identified as active in NLAD for the month claimed." Based on that analysis, DPG concludes that Verizon "did not have an adequate system in place for monitoring NLAD data to report the correct number of qualifying Lifeline subscribers on the Form 497."

Verizon disagrees with DPG's assessment that Verizon did not have an adequate system in place. As an initial matter, the 1,626 instances identified by DPG represented just 0.1 percent of Verizon's Lifeline customers during the audit period. Moreover, the Lifeline rules in effect during the 2017 audit period did not require Verizon to have a system in place "for monitoring NLAD data" or otherwise basing Lifeline reimbursements on NLAD. Under the 2017 reimbursement rules, Lifeline reimbursements were based on a snapshot of Lifeline customers in the carrier's systems on the first day of the month. NLAD subscriber counts were not incorporated into the reimbursement process until the rule changes adopted in the *2016 Lifeline Modernization Order* were implemented in January, 2018.

Under the reimbursement rules in effect during the audit period, a customer could be eligible for reimbursement even if the customer was not in NLAD. In particular, 398 instances are associated with transfer-out transactions and were clearly eligible for reimbursement. In the transfer-out process, USAC de-enrolled the transferring customer from Verizon in NLAD prior to notifying Verizon of the transfer-out. Under section 54.405(e) of the FCC's rules, Verizon then had five business days to de-enroll the customer from Lifeline. Thus, if a transfer-out occurred close to the end of the month, and the snapshot date was within the next five business days, it was consistent with the Lifeline rules for the transferred customer to still be in Verizon's snapshot even though the subscriber was no longer in NLAD.

Even if all 1,626 instances identified by DPG are considered ineligible for reimbursement, there is no basis for USAC to seek recovery for those customers. As DPG acknowledges, it was Verizon's practice during the audit period to voluntarily deduct one percent from the claim amount. Because the 1,626 instances identified by DPG represent just 0.1 percent of Verizon's snapshot count – less than Verizon's voluntary deduction – Verizon already forwent reimbursement for these customers. Specifically, Verizon claimed less than the amount permitted by section 54.407(a) of the FCC's rules even if all 1,626 instances identified by DPG are considered ineligible for reimbursement. Given that Verizon has claimed *less* than the amount permitted by the reimbursement rule, and the voluntary deduction is greater than the 1,626 instances, there is no basis for USAC to seek recovery from Verizon.

Finally, Verizon disagrees with DPG's suggestion that Verizon's voluntary one percent deduction (which DPG refers to as a "holdback percentage") "results in an estimated count of qualifying low income customers and not the actual count required by the Rules." Section 54.407(a) of the FCC's rules required only that Verizon's monthly claims be "based on" the number of actual qualifying low income consumers on the snapshot date. There was no FCC rule that prohibited Verizon from voluntarily claiming less than the amount indicated by the billing system snapshot. Verizon's practice of claiming less than the permitted reimbursement amount simply provided Verizon – and the FCC – with additional assurance that Verizon did not claim more than permitted by the reimbursement rule.

DPG RESPONSE

DPG understands that the rules in effect during the 2017 audit period allowed the Holding Company to use a snapshot of Lifeline customers from its systems on the first day of the month. However, we disagree that the Holding Company was not required to consider the information contained in NLAD when updating its internal records for the purposes of the monthly snapshot. In the Condition section above, DPG specifically identified "Subscribers not Active in NLAD" under five categories:

1. Subscriber did not have a valid NLAD transaction
2. Subscriber was enrolled in NLAD after the 1st day of the month
3. Subscriber was transferred-out in NLAD before the 1st day of the month
4. Subscriber was transferred-in in NLAD after the 1st day of the month
5. Subscriber was de-enrolled in NLAD before the 1st day of the month

With regard to categories 1 and 2, we maintain that the NLAD verification process, including the dispute resolution process, must be completed in order to verify that the subscriber is eligible. As further support, we refer to Paragraph 201 of the 2012 Lifeline Reform Order which states:

> "Because of the benefits and limited costs of identification verification, we conclude that the database must have the capability of performing an identification verification check when an ETC or other party submits a query to the database about a potential consumer. In response to the query, the database must indicate whether the subscriber's identity can be verified, and if not, provide error codes to indicate why the identity could not be verified. To ensure that subscribers are not mistakenly denied benefits, USAC must establish a process, as part of the resolution process described below, so that those consumers who failed the

> identification verification are able to either provide additional information to verify their identity, or correct errors in the information utilized to validate the subscriber's identification. As noted above, the database and identification verification process must be able to accommodate consumer addresses that are not recognized by the U.S. Postal Service (e.g., residences on Tribal lands). We direct USAC to facilitate this process by publishing its processes and rules used to verify subscriber identification. We anticipate that these processes will involve both automated processes and well as manual fall-out processes in those small number of cases where an automated process cannot verify a subscriber's identification. **ETCs may not receive reimbursement for those subscribers whose identities could not be verified through the identification verification process.**"

The acceptance date in NLAD provides final confirmation that the identification verification process is complete. Based on the 2012 Lifeline Reform Order and the Rules established at 47 C.F.R. § 54.404(b) as of the audit period, we consider it reasonable to expect that a subscriber would not be claimed until the identification verification process was completed through NLAD and an active NLAD record was established for the subscriber.

With regard to categories 3 and 4, we maintain that the date identified in NLAD as the transfer date is the date on which the subscriber should be excluded from or added to the Holding Company's internal records. In the case of a transfer, the subscriber has acknowledged that they intend to transfer the same benefit from one provider to another and the intent of the "TRANSFEROUT" or "TRANSFERIN" date within NLAD is to establish a common transition date. As further support, we refer to paragraph 242 of the 2015 Lifeline Reform Order which states:

> "Following the Lifeline Reform Order, USAC encouraged ETCs to select a single "snapshot date" during the month (e.g., the 15th of every month) to determine the number of eligible consumers for which it would seek reimbursement for that month. As a result, the snapshot dates vary from ETC to ETC. We now decide that ETCs should all use the same snapshot date to determine the number of Lifeline subscribers served in a given month and report that month to USAC on the FCC Form 497. We conclude that a snapshot date will produce substantial benefits. **First, a uniform snapshot date will reduce the risk that two ETCs receive full support for providing service for the same subscriber in the same calendar month.** Second, a uniform snapshot date will make it easier for USAC to adopt uniform audit procedures. Third, as described in the Second FNPRM section above, a uniform snapshot date will help ease the transition to a reimbursement process that calculates support based on the number of subscribers contained in the NLAD. Given the industry support and comment around the establishment of a snapshot date, compliance with our rules will be high and the administrative costs associated will be low. To promote efficiency and ease of administration, we revise section 54.407 and direct ETCs to take a snapshot of their subscribers on the first day of the month."

We disagree that section 54.405(e) of the FCC's rules allows five business days to de-enroll transferred-out subscribers. The rules at 47 C.F.R. §54.405(e)(2) containing the "five business day language" are specific to duplicative support situations where the same subscriber or household is receiving multiple benefits. The 2015 Lifeline Reform Order language is clear that the FCC did not intend for two ETCs to receive full support for providing service to the same subscriber in the same calendar month. Applying the five day de-enrollment period to transferred-out subscribers is not consistent with the 2015 Lifeline Reform Order language. Similarly, including transferred-in subscribers prior to the NLAD specified transfer date creates the potential for the subscriber to be claimed by two ETCs in the same calendar month and is also inconsistent with the 2015 Lifeline Reform Order language.

With regard to category 5, the rules at 47 C.F.R. §54.404(b)(10) state:

> "When an eligible telecommunications carrier de-enrolls a subscriber, it must transmit to the Database the date of Lifeline service de-enrollment within one business day of de-enrollment."

We maintain that if a subscriber has been reported as de-enrolled in NLAD based on the Holding Company's records, it is reasonable to expect that the internal records used for the purpose of claiming support will include the same update.

For the reasons above, we maintain our position that the Holding Company did not have an adequate system in place for monitoring NLAD data to report the correct number of qualifying Lifeline subscribers on the Form 497 and that there were 1,626 instances where a subscriber was claimed and was not identified as active in NLAD for the month claimed.

DPG recognizes that the voluntary one percent deduction applied by the Holding Company resulted in a lower amount of support claimed on the Form 497 than what the Holding Company could have claimed based on its internal records. However, we maintain that because the one percent deductions were not determined and applied on an individual customer basis, they result in an estimated count of qualifying low income customers claimed for support rather than an actual count. We do not believe it is appropriate for us to apply the deducted amounts against the ineligible instances identified by our finding because of the inability to compare them at the customer level.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.404(b)(2), (6), (8), (10) (2016)	"(b) *The National Lifeline Accountability Database*. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: … (2) If the Database indicates that a prospective subscriber, who is not seeking to port his or her telephone number, is currently receiving a Lifeline service, the eligible telecommunications carrier must not provide and shall not seek or receive Lifeline reimbursement for that subscriber.... (6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline…. (8) All eligible telecommunications carriers must update an existing Lifeline subscriber's information in the Database within ten business days of receiving any change to that information, except as described in paragraph (b)(10) of this section…. (10) When an eligible telecommunications carrier de-enrolls a subscriber, it must transmit to the Database the date of Lifeline service de-enrollment within one business day of de-enrollment."
#1	47 C.F.R. § 54.407(a) (2016)	"(a) Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income consumers it serves directly as of the first day of the month."
#1	47 C.F.R. § 54.417(a) (2016)	"Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in … [47 C.F.R. §] 54.410(d) and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years."
#1	Lifeline Worksheet, FCC Form 497, OMB 3060-0819, at 2, line 19 (July 2016)	"Based on the information known to me or provided to me by employees responsible for the preparation of the data being submitted, I certify under penalty of perjury that the data contained in this form has been examined and reviewed and is true, accurate, and complete."