Universal Service Administrative Co.

High Cost and Low Income Committee

Audit Reports Briefing Book

Monday, October 25, 2021

Available For Public Use

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: July 2021

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Hargray Telephone Company, Inc. **Attachment A**	12	• Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary did not calculate its depreciation using the average monthly asset balance and did not use its self-approved depreciation rates for certain assets related to General Support, Central Office Equipment and Cable and Wire Facilities. • Lack of/Inadequate Documentation: Assets, Expenses and Cost Study Adjustments. The Beneficiary did not provide documentation to substantiate the value of certain asset and expense transactions. In addition, the Beneficiary provided	$11,076,950	($879,832)	$0	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
		supporting documentation that was insufficient to substantiate certain cost study adjustments for its High Cost data filings. • Misclassified Access Lines. The Beneficiary incorrectly reported 5,368 multi-line business lines as single-line business lines and residential lines. • Inaccurate Access Recovery Charge Revenues. Based on the line counts provided per the Beneficiary's 24-month view, AAD identified the differences between the Beneficiary's imputed ARC Revenues and the Beneficiary's reported ARC Revenues.				
Total	**12**		**$11,076,950**	**$0**	**$0**	

Attachment A

HC2017LR004

Universal Service
Administrative Co.

Hargray Telephone Company, Inc.

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR004

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Universal Service Administrative Co.

EXECUTIVE SUMMARY

April 26, 2021

Trey Judy
Hargray Telephone Co., Inc.
856 William Hilton Parkway, Building C
PO Box 5986
Hilton Head Island, SC 29928-3423

Dear Mr. Judy:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Hargray Telephone Company, Inc. (Hargray), study area code 240523 disbursements for the year ended 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 FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited review 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 thirteen 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 FCC 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,

Jeanette Santana-Gonzalez

Jeanette Santana-Gonzalez
USAC Acting Deputy Director, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Teleshia Delmar, USAC Vice President, Audit and Assurance Division
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect[1]
Finding #1: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary did not calculate its depreciation using the average monthly asset balance as required by the FCC Rules and did not use its self-approved depreciation rates for certain assets related to General Support, Central Office Equipment (COE), and Cable and Wire Facilities (CWF).	$504,123
Finding #2: 47 C.F.R. § 54.320(b) – Lack of/Inadequate Documentation: Assets, Expenses and Cost Study Adjustments. The Beneficiary did not provide documentation to substantiate the value of the certain asset and expenses transactions. In addition, the Beneficiary provided supporting documentation that was insufficient to substantiate certain cost study adjustments for its High Cost (HC) data filings.	$211,661
Finding #3: 47 C.F.R. §§ 69.104(g), (h) – Misclassified Access Lines. The Beneficiary incorrectly reported 5,368 multi-line business lines as single-line business lines and residential lines.	$170,367
Finding #4: 47 C.F.R. § 51.917(e)(1), (2) – Inaccurate Access Recovery Charge Revenues. Based on the line counts provided per the Beneficiary's 24 month views, AAD identified the differences between the Beneficiary's imputed ARC Revenues and the Beneficiary's reported ARC Revenues.	$124,319
Finding #5: 47 C.F.R. §§ 32.6112(b), 32.6114(b), 32.6512(b), and 32.6534(b) – Improper Distribution of Overhead Expenses. The Beneficiary used direct labor dollars instead of direct labor hours when distributing its overhead expenses.	$26,695
Finding #6: 47 C.F.R. §§ 54.7(a), FCC 15-133, FCC 18-29 - Support Not Used for Intended Purpose of Federal Universal Service Support. The Beneficiary included transactions that were not necessary for the provision, maintenance, and upgrading of facilities and services for which support is intended.	$2,592
Finding #7: 47 C.F.R. § 61.45(d) – Inaccurate True-Up Adjustment: Exogenous Cost. The Beneficiary did not report accurate exogenous costs for High Cost program purposes.	$1,216
Finding #8: 47 C.F.R. §§ 32.2000(e), (f) – Incomplete/Inadequate Documentation: Continuing Property Records. The Beneficiary's continuing property records for its central office assets did not reconcile to the general ledger; it was unable to provide a CWF CPR that agrees to Dash 1 filing data; and the Beneficiary did not account for the individual retirements within its CWF CPR.	$0

[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.

Audit Results	Monetary Effect[1]
Finding #9: 47 C.F.R. § 32.2(a), (b) - Misclassified Assets and Expenses. The Beneficiary incorrectly reported certain assets and expenses transactions in the incorrect accounts.	$(1,572)
Finding #10: 47 C.F.R. § 64.901(a) – Improper Inclusion of Non-Regulated Amounts and Inaccurate Cost Study Adjustments. The Beneficiary included non-regulated costs in account balances reported for HC Program purposes. In addition, the Beneficiary made errors in its calculations used to cost allocate adjustments for certain asset (and their associated depreciation accounts) and expense accounts.	$(5,914
Finding #11: 47 C.F.R. § 51.917(d)(v) – Inaccurate Revenues: Intrastate Terminating Switched Access Service and Interstate Switched Access Service Revenues. The Beneficiary's total Interstate and Intrastate Revenues on the billing reports and general ledger did not agree to the revenues reported for High Cost purposes.	$(100,163)
Finding #12: 47 C.F.R. §§ 54.1305(i), 54.903(a)(1) – Inaccurate Loop and Access Line Count Reporting. The Beneficiary reported inaccurate access lines and loop counts for High Cost Loop and Interstate Common Line Support purposes.	$(648,230)
Finding #13: 47 C.F.R. §§ 64.901(b)(3)(ii), 32.27 – Improper Allocation Methodology – Affiliated Transactions and Expense Transactions. The Beneficiary allocated administrative charges based on factors that were not cost causative.	$(1,164,926)
Total	**$(879,832)**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for the Beneficiary for SAC 240523, for High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with the FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct 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	$320,122	$184,001	$0	$504,123	
Finding #2	$115,661	$96,000	$0	$211,661	
Finding #3	$0	$170,367	$0	$170,367	
Finding #4	$0	$0	$124,319	$124,319	
Finding #5	$18,725	$7,970	$0	$26,695	
Finding #6	$1,807	$785	$0	$2,592	
Finding #7	$0	$0	$1,216	$1,216	
Finding #8	$0	$0	$0	$0	
Finding #9	$7,643	$(9,215)	$0	$(1,572)	
Finding #10	$(1,253)	$(4,661)	$0	$(5,914)	
Finding #11	$(100,163)	$0	$0	$(100,163)	
Finding #12	$(656,403)	$8,173	$0	$(648,230)	
Finding #13	$(579,115)	$(585,811)	$0	$(1,164,926)	
Mechanism Total	**$(872,976)**	**$(132,391)**	**$125,535**	**$0**[3]	

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.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart 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)	2014-2015	2016	$3,321,078
High Cost Loop (HCL)	2014	2016	$1,338,230

[2] *Id.*

[3] As the findings represent a net underpayment, the total USAC Recovery Action is $0.

Interstate Common Line Support (ICLS)	2014	2016	$6,411,642
Total			**$11,076,950**

Note: The audit period relevant here precedes the FCC's *Hargray/ComSouth Order*, therefore, AAD did not perform any audit procedures related to the transfer of control of ComSouth.[4]

BACKGROUND

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

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 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 FCC 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 FCC 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 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.
- 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.

[4] *Joint Application of W. Mansfield Jennings Limited Partnership and Hargray Communications Group, Inc. for Consent to the Transfer of Control of ComSouth Corporation Pursuant to Section 214 of the Communications Act of 1934*, WC Docket 18-52, Memorandum Opinion and Order, 33 FCC Rcd 4780 (2018) (addressing mixed-support transfers of control) (*Hargray/ComSouth Order*).

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. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

CONDITION

AAD obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense (DE) and accumulated depreciation (AD). The Beneficiary did not calculate its depreciation expense using the average monthly asset balance and did not use its self-approved depreciation rates[5] for certain assets related to General Support, Central Office Equipment (COE), and Cable and Wire Facilities (CWF). The Beneficiary was unable to explain its calculated rates. AAD observed (1) instances in which the Beneficiary's system used hard-coded certain amounts that the Beneficiary could not support by documentation or explanation, and (2) inconsistences between depreciation rates in the system versus the self-approved rates. AAD recalculated the depreciation using the average of the beginning and ending balance of each month and the correct depreciation rates the Beneficiary had self-approved, and noted the following variances between the reported amounts and the recalculated amounts:

Account Description	**Variance for the 12 months ended December 31, 2014 Overstated/ (Understated)**	**Variance for the 12 months ended September 30, 2015 Overstated/ (Understated)**
AD – General Support (Acct 3100-2110)	$(65,284)	$91
AD - COE Switching (Acct 3100-2210)	$(764)	$(763)
AD – COE Transmission (Acct 3100-2230)	$1,806,200	$1,916,212
AD – CWF (Acct 3100-2410)	$3,310	$2,728
DE – General Support (Acct 6560-2110)	$(65,284)	$91
DE – COE Switching (Acct 6560-2210)	$(764)	$(763)
DE – COE Transmission (Acct 6560-2230)	$1,806,200	$1,916,212
DE – CWF (Acct 6560-2410)	$3,310	$2,728

Because the Beneficiary did not use the average monthly asset balance and did not use its self-approved depreciation rates, AAD concludes that the Beneficiary did not properly calculate depreciation expense and accumulated depreciation.

[5] Email from Christopher Rozychki, Director of Telecommunications at the South Carolina Office of Regulatory Staff, to AAD, Dec. 12, 2017 (stating that the state of South Carolina does not have any current state approved depreciation rates in place and has not reviewed and approved depreciation rates since prior to 1996).

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to correctly calculate depreciation expense and accumulated depreciation. The Beneficiary informed AAD that this issue occurred because the state Public Service Commission (PSC) changed the annual reporting form to remove depreciation rates. The Beneficiary stated that it is investigating the depreciation calculation. The Beneficiary indicated it will modify its process to calculate depreciation on prior month ending balance.

AAD notes, however, that the Beneficiary may be unfamiliar with the current state rules and processes. Specifically, as the Beneficiary indicated that it will file an updated depreciation schedule with the South Carolina PSC, although the state does not currently approve depreciation rates.[6] In addition, the Beneficiary stated that its consultant will use correct depreciation and it will adjust the accumulated depreciation. The Beneficiary proposes to adjust the beginning depreciation reserve on the 2019 cost study and HCLS filings with data after that point, adjusting entries will be recorded on the Beneficiary's general ledger.[7]

EFFECT

AAD calculated the monetary effect for this finding by subtracting or adding the value of the overstatement from or understatement to the total amount for depreciation expense and accumulated reported by the Beneficiary in the respective accounts on its High Cost (HC) filing. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$320,122
ICLS	$184,001
CAF ICC	0
Total	**$504,123**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above.

The Beneficiary must implement an adequate system to properly calculate depreciation expense and accumulated depreciation reported for High Cost program purposes. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will implement and maintain in its asset module the required depreciation calculation methodology of multiplying the self-approved asset depreciation rate by the average of the monthly beginning and ending asset balances. The Beneficiary should refile any High Cost filings in which it used similar depreciation methods, reporting the depreciation expense and related accumulate depreciation calculated using average balances.

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/.

[6] *See supra* n.2

[7] Beneficiary responses to audit inquiries, received April 2, 2020.

BENEFICIARY RESPONSE

Hargray Telephone agrees with the listed condition and will implement a process to manually calculate depreciation expense using the average monthly asset balances. In addition, Hargray has already reviewed its depreciation rates and made any corrections that were necessary. Hargray's depreciation rates are not regulated by the SC Public Service Commission and Hargray has the flexibility to make any changes it deems appropriate within FCC guidelines.

Note, Hargray will also adjust the depreciation reserve prospectively to remove the depreciation expense disallowed in this finding.

Finding #2: 47 C.F.R. § 54.320(b) – Lack of/Inadequate Documentation: Assets, Expenses and Cost Study Adjustments

CONDITION

AAD obtained and examined the general ledger, continuing property records (CPR), and cost study balances to determine whether the Beneficiary reported accurate asset balances, including a non-statistical sample of 35 assets transactions totaling $23,242,799 and 32 expense[8] transactions totaling $523,584 for High Cost program purposes based on high dollar value and proportional to the investment impact on High Cost support.

Lack of Documentation - Assets

The Beneficiary did not provide documentation to substantiate the value and existence of one COE and four CWF asset samples out of the 35 total asset samples as detailed below.

Lack of Documentation			
Account Description[9]	**Number of Samples with Exception**	**Total Value of Sample**	**Unsupported Amount**
COE Switching (Acct 2212)	1	$190,938	$190,938
CWF – Buried Cable (Acct 2423)	3	$8,516,843	$32,545
CWF – Conduit Systems (Acct 2441)	1	$686,146	$686,146
Total		**$9,393,927**	**$909,629**

[8] Two expense transactions relate to affiliate transactions, which were accounted for in Finding 13: Improper Allocation Methodology – Affiliated Transactions and Expense Transactions.

[9] *See* 47 C.F.R. §§ 32.2212 (2014); 32.2423 (2014); 32.2441 (2014).

Inadequate Documentation – Assets and Expenses

In addition, AAD examined the supporting documentation and determined that it was not sufficient to substantiate the value of 23 of the 35 asset samples and six of the 32 expense samples. Further, the Beneficiary did not have adequate documentation to substantiate whether the allocation methodology used on four of the six expense samples with exceptions were in accordance with FCC Rules. Below is summary of the exceptions[10] noted:

Inadequate Documentation – Supporting Documentation				
Account[11]	**Type**	**Number of Samples with Exception**	**Total Value of Sample**	**Unsupported Amount**
Digital Electronic Switching (Acct 2212)	Asset	8	$2,607,317	$2,607,317
Circuit Equipment (Acct 2232)	Asset	3	$965,356	$965,356
Underground Cable (Acct 2422)	Asset	4	$157,074	$140,684
Buried Cable (Acct 2423)	Asset	4	$87,289	$67,534
Conduit Systems (Acct 2441)	Asset	4	$23,520	$13,999
Underground Cable Expense (Acct 6422)	Expense	1	$4,195	$4,195
Buried Cable Expense (Acct 6423)	Expense	1	$40,124	$40,124
Total		**25**	**$3,884,875**	**$3,839,209**

Inadequate Documentation – Allocation Methodology				
Account[12]	**Type**	**Number of Samples with Exception**	**Total Value of Sample**	**Unsupported Amount**
General Purpose Computers Expense (Acct 6124)	Expense	1	$12,535	$12,535
Buried Cable Expense (Acct 6423)	Expense	1	$1,134	$1,134
Plant Operations Administration Expense (Acct 6534)	Expense	1	$149,000	$0[13]
Engineering Expense (Acct 6535)	Expense	1	$29,700	$0[14]
Total		**4**	**$192,369**	**$13,669**

[10] 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.

[11] *See* 47 C.F.R. §§ 32.2212 (2014); 32.2232 (2014); 32.2422 (2014); 32.2423 (2014); 47 C.F.R. §§ 32.2441 (2014); 32.6422 (2014); 32.6423 (2014).

[12] *See* 47 C.F.R. §§ 32.6124 (2014); 32.6423 (2014); 32.6534 (2014); 32.6535 (2014).

[13] This is an affiliate transaction related to monthly accrual of service charge which is adjusted at year end as a cost study adjustment based on its service charge allocation. AAD calculated monetary impact of this exception at Finding #13 - Improper Allocation Methodology – Affiliated Transactions and Expense Transactions.

[14] *Id*.

Inadequate Documentation - Cost Study Adjustments
AAD obtained and examined the Beneficiary's supporting documentation for 112 cost study adjustments (51 adjustments for its December 31, 2014 HC data filing and 61 adjustments for its September 30, 2015 HC data filing) to determine whether the Beneficiary reported the correct amounts for High Cost program purposes. AAD noted the Beneficiary's supporting documentation was insufficient to substantiate three cost study adjustments for its December 31, 2014 HC data filing and three cost study adjustments for its September 30, 2015 HC data filing, adjusted in the September 30, 2014 and 2015 CPRs, respectively.[15]

In the following table, AAD noted the differences between the Beneficiary's study adjustments and AAD's:

Account Description	Variance for the 12 months ended December 31, 2014 Overstated/ (Understated)	Variance for the 12 months ended September 30, 2015 Overstated/ (Understated)
COE Switching (Acct 2212)	$(13,213)	$(13,213)
COE Transmission (Acct 2232)	$266	$0
General Support Assets (Acct 2121)	$13,425	$13,213
COE Switching Expense (Acct 6212)	$(478)	$1,563,687
COE Transmission Expense (Acct 6232)	$147,099	$147,099
Network Operating Expense (Acct 6534)	$135,223	$135,223
Customer Services Marketing Expense (Acct 6612)	$824,182	$824,182
Customer Operations Services Expense (Acct 6620)	$(1,051,451)	$(1,051,451)
General Administrative Expense (Acct 6721)	$5,414	$5,414
Operating Taxes (Acct 7240)	$88,630	$88,630
Accumulated Depreciation (AD) – General Support Assets (Acct 3100-2121)	$0	$(1,050)
AD – COE Switching (Acct 3100-2212)	$0	$2,498
Depreciation Expense – COE Switching (Acct 6561-2212)	$0	$(2,220)

Beneficiaries must maintain copies of invoices, detailed allocation schedules, and other relevant documentation to substantiate that the Beneficiary recorded its assets and expenses, including cost study adjustments, in the proper amount and to the proper general ledger account. Because the Beneficiary did not provide adequate documentation to substantiate the assets, expenses, and cost study adjustments, AAD determined that the Beneficiary did not record asset and expense transactions in the proper amount and to the proper general ledger account and the cost study balances reported for High Cost program purposes were not accurately reported.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure the proper retention of records to demonstrate transactions were recorded in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that asset retirements were not properly

[15] *See* Finding #8 - Incomplete/Inadequate Documentation: Continuing Property Records.

communicated by network engineering to accounting. The Beneficiary stated that it performs periodic equipment audits which catch these retirements, but it may be a year or two after the fact. The Beneficiary indicated it generates CPRs as of September 30, 2014 and 2015, and adjustments were not available to fillings as of December 31, 2014.[16]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the value of the overstatement from, or adding the value of the understatement to, the total amount reported by the Beneficiary in its respective accounts on the Beneficiary's HC filing. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$115,661
ICLS	$96,000
CAF ICC	$0
Total	**$211,661**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above.

The Beneficiary must retain adequate records to demonstrate assets are recorded in the proper amount and to the proper general ledger account and maintain documentation to demonstrate compliance with FCC Rules. The Beneficiary must develop and implement policies, procedures and processes that describe how the Beneficiary will 1) ensure it retains adequate records to demonstrate assets are recorded in the proper amount and to the proper general ledger account, 2) maintain adequate documentation to verify when assets are actively in use and when the assets have been retired, and 3) process retirement updates to the Beneficiary's general ledger and CPR in a timely manner to properly reflect the removal of costs related to the retired assets that are submitted for High Cost programs purposes. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary calculates, performs review of and retains supporting source documentation of cost study adjustments that are submitted in the Beneficiary's filings for High Cost programs purposes. In addition, the Beneficiary can 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

> Hargray disagrees with this finding. Additional backup has been suppplied [sic]. In addition, in the supplemental infromation [sic] provided by USAC it mentions, "Hargray should have used the Dash 4 adjustment amounts for their Dash 1 adjustment in each account." We disagree with this. The CPR generated for the Dash 4 was not available at the time of the Dash 1, i.e. Dash 4 is a 9/30/2015 CPR, whereas, the Dash 1 is 9/30/2014. As for the CS, backup is provided.

[16] Beneficiary responses to audit inquiries, received April 2, 2020.

We disagree with this finding. USAC's reworking of the tax adjustment does not take into account issues with the cost study adjustments pertaining to inadequate support. As the additional support is analyzed, our tax amounts should tie out.

With regard to retired assets, Hargray asserts that assets were removed from service, but communication of such from the engineering department to the accounting department did not occur on a timely basis. When USAC auditors brought this issue to our attention, we followed up with our engineering colleagues and they had a list of retired asset immediately available which included the assets in this finding. Hargray recorded the retirement immediately. We will also note that if retirements had created a depreciation reserve deficiency, Hargray's rates are sufficiently below authorized levels that they could have and would have been increased to address any depreciation short falls.

AAD RESPONSE

The Beneficiary stated that it does not agree with this finding. The Beneficiary asserted that 1) it provided additional documentation to substantiate its cost study adjustments, 2) it made adjustments based on the CPR available for each period, and 3) when working the tax adjustment, USAC did not take into account issues with the cost study adjustments.

During the audit, AAD obtained and examined the documentation provided by the Beneficiary to substantiate its cost study adjustments. The Beneficiary provided spreadsheets, invoices and other documentation to support its cost study adjustments. AAD determined that the documentation provided was insufficient, because the invoices and/or calculations provided did not agree to the amount adjusted or did not support the adjustment in its entirety. For example, for two of the relevant adjustments, related to the transfer of cost study expenses to the correct account per company provided breakdown, the Beneficiary provided no documentation to support the adjustments. For the remaining four relevant adjustments – each of which were all related to the booking of air conditioning, fiber, and Ethernet in the appropriate accounts, the Beneficiary provided vendor invoices to support the respective cost study adjustments. AAD reviewed those invoices and determined that the Beneficiary was unable to support $13,425 of General Support Assets (Acct 2121) because it had failed to provide invoices from Plantation Electric Co Inc.

Regarding, the usage of adjustment amounts for the different Dash fillings based on its CPRs, the Beneficiary provided documentation including vendor invoices to support CPR adjustments. The Beneficiary stated that USAC indicated, "Hargray should have used the Dash 4 adjustment amounts for their Dash 1 adjustment in each account." Here, AAD clarifies that information was readily available to the Beneficiary for the assets in service in both periods (*i.e*., both Dash fillings), thus, the Beneficiary should have made the appropriate adjustments in the appropriate amounts rather than not adjusting the asset balance (i.e., omitting adjusting the asset balance). For example, the invoices to support CPR adjustment #1 in the September 30, 2015 cost study were all dated prior to September 30, 2014, and thus were available to the Beneficiary for the December 31, 2014 High Cost filing. Thus, AAD determined that there were adjustments for assets in service in both periods that the Beneficiary did not properly adjust in the correct period.

Additionally, in its response, the Beneficiary stated: "we disagree with this finding. USAC's reworking of the tax adjustment does not take into account issues with the cost study adjustments pertaining to inadequate support." AAD clarifies that we did not perform a recalculation of taxes related to this finding. Instead, AAD removed the $88,630 cost study expense adjustment 21 (Dash 1 and Dash 4), as not adequately documented because we did not receive any actual documentation from the Beneficiary to support how it calculated the adjustment or why it recorded the adjustment.

For these reasons, AAD's position on this Finding remains unchanged.

Finding #3: 47 C.F.R. § 69.104(g)(h) – Misclassified Access Lines

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing to determine whether the Beneficiary properly classified its access lines as Residential/Single-Line Business (Res/SLB) or Multi-Line Business (MLB) as of December 31, 2014, totaling 16,379 and 7,794, respectively. AAD noted that the Beneficiary misclassified 5,368 multi-line business lines as residential/single line business lines within its subscriber listing; and thus, reported incorrect amounts for Interstate Common Line Support (ICLS) purposes. Because the Beneficiary's supporting documentation did not agree to what was reported, AAD concludes that the Beneficiary reported inaccurate access line revenues.[17]

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 lines for High Cost program purposes. The Beneficiary informed AAD that it found some lines where it had charged, in error, the business line rate.[18]

EFFECT

AAD calculated the monetary effect for this finding by multiplying the difference between the Res/SLB rates or the MLB rate by the number of months the affected subscribers had service in 2014. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
ICLS	$170,367

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amount identified in the Effect section above.

The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure it has an adequate system to properly classify its lines and assess the appropriate subscriber line charge for High Cost program purposes. In addition, the Beneficiary may learn more about

[17] 47 C.F.R. 69.104(h).
[18] Beneficiary responses to audit inquiries, received April 2, 2020.

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

> We disagree with a number of the line categorizations here, but found a few instances where we had charged single line business rates in error. In many cases, we have residential lines billed through a management company that looked to auditors like multi-line business customers. In fact, these were residential second homes with absentee owners who pay management companies to maintain their properties.
>
> We have begun a line by line audit starting with these findings. We are also creating rules to account for this type of issue in our new billing system which will be implemented in just over a year.

AAD RESPONSE

The Beneficiary does not agree with part of the finding. The Beneficiary stated in its response that "residential lines billed through a management company that looked to auditors like multi-line business customers." During the audit, AAD obtained and reviewed the Beneficiary's subscriber listing and noted 5,368 lines that the Beneficiary should have been classified as multi-line business lines. As noted by the Beneficiary in its response, the Beneficiary delivered service to management companies for numerous of subscriber lines. AAD requested documentation to substantiate the residential second homes line categorization; however, the Beneficiary did not provide any documentation to support that lines identified as multi-line business lines by AAD were in fact residential lines. The subscriber listing provided by the Beneficiary did not indicate actual or obvious use for domestic purposes,[19] thus, AAD concluded that the Beneficiary's lines billed to a management company represent multi-business lines. For these reasons, AAD's position on this Finding remains unchanged.

Finding #4: 47 C.F.R. §§ 51.917(e)(1), (2) – Inaccurate Access Recovery Charge Revenues

CONDITION

AAD obtained and examined the Beneficiary's 24-month view line counts to determine whether the Beneficiary reported the accurate maximum Access Recovery Charge Revenues (ARC Revenues) for High Cost program purposes.[20] To impute the Beneficiary's ARC Revenues, AAD examined the Beneficiary's line counts and multiplied the maximum ARC rate.[21] Based on the line counts provided in the Beneficiary's 24-month

[19] Hargray Telephone Company Inc., General Customer Services Tariff, Effective date January 1.1988; Definition of Terms, Residence Service.
[20] 47 C.F.R. § 51.917(f)(2) (2014).
[21] 47 C.F.R. § 51.917(e) (2014).

views, AAD identified the following differences between the Beneficiary's imputed ARC Revenues and the Beneficiary's reported ARC Revenues:

Description	Program Year 2013-2014	Program Year 2014-2015
Reported ARC Revenues	$302,623	$445,645
Imputed ARC Revenues	414,330	585,393
Difference: Over/(Under) Reported	**$(111,707)**	**$(139,748)**

Because the Beneficiary's imputed ARC Revenues were greater than the Beneficiary's reported ARC Revenues, AAD concludes that the Beneficiary did not report the maximum ARC charges.[22]

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report the correct ARC revenues for High Cost program purposes. The Beneficiary informed AAD that it believes it had billed and reported ARC revenues appropriately. The Beneficiary indicated that it did not maintain a report detailing residential customers who it did not bill an ARC. The Beneficiary also stated that currently, none of its residential customers are eligible for ARC charges because its residential rates are all above $30 per month. Finally, the Beneficiary indicated that it is reviewing lines for correct residential vs. business classification.[23]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the difference between the reported revenues and the imputed revenues from the total amount reported by the Beneficiary in its ARC Revenues accounts in its CAF ICC filing. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
CAF ICC	$124,319
HCL	$0
ICLS	$0
Total	**$124,319**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amount identified in the Effect section above.

The Beneficiary must ensure it has adequate systems to report accurate data for High Cost program purposes and maintain documentation to demonstrate compliance with FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary substantiates the inputs, calculates, documents and ensures accurate reporting of the access recovery charge revenues reported for High Cost program purposes. In addition, the Beneficiary can learn more about documentation and reporting

[22] *Id.*

[23] Beneficiary responses to audit inquiries, received April 2, 2020.

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 disagree with this finding and believe that we have billed and reported ARC revenus [sic] appropriately. We did not have a report detailing residential customers where we did not bill an ARC. Today, none of Hargray's residential customers are eligible for ARC chages [sic] because residential rates are all above $30 per month. We are, however, reviewing lines for correct residential vs business classification.

AAD RESPONSE

The Beneficiary stated it does not agree with this finding because it reported ARC revenues as billed to its customers. Per 47 C.F.R. § 51.917(f)(2) and FCC 11-161, paragraph 910, carriers must impute and report the maximum ARC revenues it could have assessed, regardless of whether or not it elected to charge its customers an ARC fee.[24] As stated in its response, the Beneficiary did not supply a listing of customers where it did not bill an ARC. As such, AAD utilized the number of customer lines reported on the Beneficiary's 24-month views to calculate the imputed ARC amounts that the Beneficiary should have reported for High Cost purposes. Therefore, AAD's position remains unchanged.

Finding #5: 47 C.F.R. §§ 32.6112(b), 32.6114(b), 32.6512(b), 32.6534(b) – Improper Distribution of Overhead Expenses

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary distributed overhead expenses using direct labor hours and recorded its overhead expenses to the proper general ledger account.[25] AAD non-statistically selected one month to inspect the distribution of overhead expenses totaling $40,723 and determined that the overhead expenses were cleared monthly to plant specific operations expense accounts and the plant under construction account based on total labor dollars of plant-related employees during the period. While the Beneficiary distributed and recorded its overhead expense amounts from Account 6112 (Motor Vehicle Expense), Account 6114 (Other Work Equipment Expense), Account 6512 (Provisioning Expense), and Account 6534 (Plant Operations Administration) to plant specific operations expense accounts, AAD concludes that the Beneficiary did not clear overhead amounts using direct labor hours or suitable labor charge where appropriate.[26] AAD summarized these exceptions within the table below:

[24] 47 C.F.R. § 51.917(f)(2) (2014). *See also Connect America Fund A National Broadband Plan For Our Future Establishing Just and Reasonable Rates For Local Exchange Carriers High-Cost Universal Service Support Developing an unified Intercarrier Compensation Regime Federal-State Joint Board on Universal Service Lifeline and Link-Up Universal Service Reform – Mobility Fund*, Report and Order and Further Notice of Proposed Rulemaking, WT Docket No. 10-208, FCC 11-161, 26 FCC Rcd. 17663, para. 910 (2011).
[25] *See* 47 C.F.R. §§ 32.6112(b) (2014), 32.6114(b) (2014), 32.6512(b) (2014), and 32.6534(b) (2014).
[26] *Id.*

Distribution Account (Per Beneficiary)	Original Distribution	Revised Distribution	Variance [Addition/ (Removal)]
Construction in Progress (Acct 2003)	$1,503	$0	$(1,503)
Central Office Switching Expense (Acct 6212)	$826	$0	$(826)
Circuit Equipment Expense (Acct 6232)	$2,133	$0	$(2,133)
Buried Cable Expense (Acct 6423)	$36,261	$0	$(36,261)
Total	**$40,723**	**$0**	**$(40,723)**

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly distribute and record the overhead clearing expenses to the related plant specific operations expense accounts using direct labor hours. The Beneficiary informed AAD that this issue occurred due to the current system not having the ability to use hours to allocate overheads and use dollars as a proxy.[27]

EFFECT

AAD calculated the monetary effect for this finding by deducting the distributed amounts from the total amount reported by the Beneficiary in the respective accounts in its High Cost filing. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$18,725
ICLS	$7,970
CAF ICC	$0
Total	**$26,695**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amount identified in the Effect section above.

The Beneficiary must develop policies and procedures and implement adequate system functionality to ensure it properly calculates and distributes its overhead expenses to the related plant specific operations expense accounts using direct labor hours. In addition, the Beneficiary can 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

> In advance of this audit, Hargray commissioned a review of its overhead allocation procedures from an independent CPA firm with extensive experience in the telecommunications industry. The auditors found that while the use of labor dollars

[27] Beneficiary responses to audit exception summary, received April 2, 2020.

rather than labor hours did not comport with FCC rules, in Hargray's specific case, it did not create a material misallocation of overheads. Hargray is in the process up updating all of its back office systems and will modify its overhead allocation process as part of that update.

AAD RESPONSE

The Beneficiary stated in its response that it hired a firm to review its overhead allocation procedures. The Beneficiary asserted that by using labor dollars did not create a material misallocation of overheard. However, the Beneficiary did not provide the analysis to AAD to demonstrate the impact of these procedures for High Cost purposes. In its response, the Beneficiary acknowledges that the use of labor dollars is not in compliance with the FCC Rules. Pursuant to the FCC rule sections, 32.6112(b), 32.6114(b), 32.6512(b), 32.6534(b), the amounts recorded in these accounts shall be computed on the basis of direct labor hours. Therefore, AAD's position remains unchanged.

Finding #6: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 - Support Not Used for Intended Purpose of Federal Universal Service Support

CONDITION

AAD obtained and examined the Beneficiary's general ledger, Continuing Property Records (CPR) and cost study adjustments documentation for the twelve months ending December 31, 2014 and for the twelve months ending September 30, 2015 to determine whether High Cost program support was only used for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

AAD utilized computer assisted audit techniques to uncover outliers and anomalous transactions for 100 percent 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 non-statistical sample of 49 general ledger transactions totaling $144,712 and 21 general ledger transactions totaling $67,358 for the twelve months ending December 31, 2014 and September 30, 2015, respectively. The Beneficiary did not exclude 18 transactions totaling $21,540 from various expense accounts that were related to meals, travel, membership dues in clubs, sponsorship of community events, education reimbursement, and gifts to employees that were not necessary for the provision, maintenance, and upgrading of facilities as summarized in the table below.

Account Description	Amount
Network Support Expense (Acct 6110)	$1,225
Other Operating Expense (Acct 6510)	$78
Network Operating Expense (Acct 6530)	$8,712
Customer Operations Services Expense (Acct 6620)	$6,025
General Administrative Expense (Acct 6720)	$5,500
Total	**$21,540**

AAD clarifies that while FCC 15-33 and FCC 18-29 were released after the audit period, the relevant regulation effective during the audit period states, "a carrier that received 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."[28] The Beneficiary should have removed these unallowable transactions during its cost study process.

Because the Beneficiary's reported balances included 18 disallowed transactions, AAD concludes that the Beneficiary's High Cost program support was not used for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude unallowable expenses from the amounts reported for High Cost program purposes. The Beneficiary informed AAD that the Beneficiary believes that these expenses were not deemed as not includable transactions until the FCC Public Notice 15-133 was released in 2015.[29]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the value of the unallowable expenses from the total amount reported by the Beneficiary in its respective accounts in its High Cost filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$1,807
ICLS	$785
CAF ICC	$0
Total	**$2,592**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above.

The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary removes costs that are not for the provision, maintenance, and upgrading of facilities and services for which the support is intended to report accurate data for High Cost program purposes and maintain documentation to demonstrate compliance with FCC Rules. In addition, the Beneficiary can 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

> As noted, FCC 15-33 and FCC 18-29 were released after the audit period and drew further attention to the need to use "support only for the provision, maintenance and upgrading of facilities and services for which the support is intended." Hargray always strives to operate within the guidelines. The findings highlight certain items that

[28] *See* 47 U.S.C. § 254(e), 47 CFR § 54.7.
[29] Beneficiary responses to audit results summary, received April 2, 2020.

should have been excluded like building maps that happen to be outside their serving territory, as well as, multiple small gift cards that were part of the carrier's commission compensation for meeting short term sales goals.

Overall, Hargray agrees with the finding. Going forward, Hargray has worked to improve internal control procedures to ensure that costs not necessary for the provision, maintenance, and upgrading of facilities are excluded from Universal Service Support filings.

AAD RESPONSE

AAD clarifies that the Beneficiary should not have recorded the expenses, including building maps outside of serving territory and gift cards, in regulated accounts pursuant to the FCC's orders (FCC 15-133 and FCC 18-29), in which the FCC clarified its existing rules and regulations. The FCC did not make new rules but provided additional clarity on existing rules, stating:

> "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…"[30]
>
> "Just as carriers must not use USF funds for inappropriate expenses, we remind rate-of-return carriers that section 65.450 of our rules prohibits them from including expenses in their revenue requirements unless such expenses are "recognized by the Commission as necessary to the provision" of interstate telecommunications services."[31]

Finding #7: 47 C.F.R. § 61.45(d) – Inaccurate True-Up Adjustment: Exogenous Cost

CONDITION

AAD obtained and examined the Beneficiary's CAF ICC True-up documentation to determine whether the Beneficiary reported accurate exogenous cost amounts for High Cost program purposes. Exogenous costs reported for CAF ICC purposes include Telecommunication Relay Service (TRS), FCC Regulatory, and North American Number Plan Association (NANPA) fees. For beneficiaries whose subscriber line charge rates were at the maximum levels permitted by FCC Rules, the 2012 Annual Access Tariff Filings Order DA 12-575 allowed beneficiaries to include that portion of increases in mandatory TRS, FCC Regulatory, and NANPA fees associated with a rate that is capped in their Eligible Recovery for the 2012 annual access charge tariff filing.[32] The Beneficiary reported $3,393 in exogenous costs in its reporting of CAF ICC true-up adjustments. Using the appropriate factors and the Beneficiary's applicable switched access factors, AAD calculated an exogenous

[30] *See All Universal Service High-Cost Support Recipients Are Reminded That Support Must Be Used For Its Intended Purpose*, Public Notice, WC Docket No. 10-90, WC Docket No. 14-58, FCC 133, 30 FCC Rcd. 11821 (2015).
[31] *Id.*
[32] *Material to be Filed in Support of 2012 Annual Access Tariff Filings,* Order, WCB/Pricing File No. 12-08, DA 12-575, 27 FCC Rcd. 3960, 3962-63, para. 7 (2012).

cost amount of $871. Because the Beneficiary did not properly calculate its exogenous cost, AAD concludes that the Beneficiary did not report an accurate exogenous cost amount. The Beneficiary must report accurate exogenous costs for High Cost program purposes.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the calculation of exogenous cost submitted for High Cost program purposes. The Beneficiary informed AAD that it calculated its exogenous costs using general ledger amounts and acknowledges that AAD's calculation was based on standardized factors against End-User Revenues.[33]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the recorded value of the overstatement from the total amount of exogenous cost reported by the Beneficiary in its true-up adjustments on the CAF ICC filing. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
CAF ICC[34]	$1,216[35]

RECOMMENDATION

AAD recommends USAC management seek recovery of the 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 the Rules. To ensure accurate reporting, the Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary calculates its Exogenous Costs, utilizing appropriate factors, which are submitted in its CAF ICC filing for High Cost program purposes. In addition, the Beneficiary can 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

Hargray agrees with this finding and has corrected the calculation for future CAF-ICC Filings.

[33] Beneficiary responses to audit exception summary, received April 2, 2020.

[34] Under existing policies, High Cost program Management rounds down CAF ICC Support to the nearest dollar throughout the calculation. Thus, the monetary effect does not exactly equal half of the difference.

[35] The CAF ICC program year provides for the disbursement of funds on a July to June basis, with true-up payments disbursed two years after the program year. The true-up payment for the 2013 – 2014 CAF ICC program year was disbursed from July 2015 to June 2016 (based on data submitted in June 2015) and the true-up payment for the 2014 – 2015 CAF ICC program year was disbursed from July 2016 to July 2017 (based on data submitted in June 2016). The audit period includes an examination of disbursements paid in 2016; therefore the monetary effect for this Finding accounts for the last six months of the true-up payment that occurred from January to June 2016 that corresponds to the 2013–2014 program year and the first six months of the true-up payment that occurred from July to December 2015 corresponds to the 2014 – 2015 program year.

Finding #8: 47 C.F.R. § 32.2000(e)(f) – Incomplete/Inadequate Documentation: Continuing Property Records

CONDITION

AAD obtained and examined the Beneficiary's continuing property records (CPR) and general ledger to determine whether the Beneficiary properly reported its assets balances for High Cost program purposes. AAD noted the Beneficiary's CPRs for its central office assets (accounts 2212 to 2232) did not reconcile to its general ledger. The Beneficiary has a fiscal year end of September 30th and thus prepares its CPR as of that date. However, the Beneficiary uses its general ledger balances as of December 31st for the High Cost data submission and the CPR was not updated to record the activity that occurred during the three months from October 1, 2014 to December 31, 2014. Therefore, AAD could only compare the September 30, 2014 CPR balances to the December 31, 2014 general ledger detail based on the information provided by the Beneficiary and noted the differences when taking the cost study adjustments into account as detailed in the table below.

Account Description	CPR as of 9/30/2014 (A)	General Ledger as of 12/31/2014 (B)	Cost Study Adjustments 09/30/2014 (C)	Difference (B)+(C)-(A)
Central Office Equipment (COE) Switching (Accts 2210)	$34,457,514	$34,650,576	$(191,905)	$1,158
COE Transmission (Acct 2230)	$43,688,698	$45,454,884	$(245,147)	$1,521,040

In addition, during examination of the continuing property records, AAD noted the following for the Cable and Wire Facilities (CWF) CPR:

a) The Beneficiary provided the CWF CPR as of September 30, 2014 and submitted the general ledger balances for CWF as of December 31, 2014, totaling $110,122,687, for the Beneficiary's Dash-1 filing data. This variance represents the activity that occurred during the three months from October 1, 2014 to December 31, 2014.
b) Upon review of the CWF CPR detail, AAD noted that the "Units" activity detail did not agree to activity balances as determined by taking the difference in units from October 1, 2006 to October 1, 2014 with balances noting unit activity of 396,615 versus activity detail showing a change of 361,548. The Beneficiary could not provide an explanation as to why the unit activity did not reconcile.
c) The Beneficiary did not account for individual asset retirements within its CWF CPR, but accounts for them within its general ledger system. The Beneficiary then allocates the difference between the general ledger and the CPR (Trial Value) to individual assets within the CPR. AAD noted instances where the Beneficiary's methodology of allocating the difference between the "Trial Value" and the "Actual" (i.e., general ledger balance) incorrectly creates negative asset balances in the CPR.

Because the Beneficiary did not provide adequate documentation to substantiate the value of its assets that are recorded in the CPR, AAD concludes that the Beneficiary did not maintain proper CPRs.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly ensure that the Beneficiary reported accurate information for High Cost program purposes. The Beneficiary stated that it used the general ledger balances as of December 31, 2014 for High Cost fillings and it prepares its CPRs as of September 30th. The Beneficiary indicates that it does not rely on footage stated in the CWF CPR as it uses engineering details to tie out to footages (i.e., not part of CPR). The Beneficiary informed that it inadvertently did not account for individual asset retirements within its CWF CPR in error.[36]

EFFECT

The Beneficiary failed to maintain accurate CPRs that support the full amounts in the general ledger balances for plant in service accounts increases the probability for errors and/or omissions in future High Cost program filings. CPRs are an integral component of retiring assets when removed from service, transferring assets between locations, and ensuring that the general ledger accurately reflects the investment in assets that are providing service in the Beneficiary's network. However, as the Beneficiary adequately reported the COE and CWF balances by utilizing the general ledger balances as of December 31, 2014 in its High Cost data submission, AAD finds no monetary effect to be calculated and therefore recommends no recovery.

RECOMMENDATION

The Beneficiary must implement an adequate system to maintain property records with the level of detail compliant with FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary ensures that it reports CPR detail and balances reflecting the proper data period and that the CPR reconciles to what is reported in the Beneficiary's dash filing for High Cost Reporting purposes. The Beneficiary must also develop and implement policies, procedures, and processes that describe how the Beneficiary will properly track asset activity, update its CPR and general ledger for all asset activity, and perform reconciliations between the two to ensure balances are reported for High Cost program purposes are accurate. In addition, the Beneficiary can 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

> Hargray is working on a revised CPR system for outside plant assets. Significant broadband construction has made this a priority. However, this increased construction level has also brought to light that our existing OSP tracking and management system is insufficient to future needs. We have selected a replacement vendor and are implementing the new system. Linking that to a mechanized CPR system will be the final phase of this project. We are correcting spreadsheet issues with the existing system as we work on a more robust solution.
>
> With regard to the COE CPR to GL differences, we disagree with this finding. The Dash 1 filing use the 9/30/2014 CPR, however, the GL balances are as of 12/31/2014. I'm not seeing what Part 64 adjustment you're referring to. However, the basis of the

[36] Beneficiary responses to audit exception summary, received April 2, 2020.

adjustments that come by way of the COE-CPR use ratios. Therefore, we keep the same ratio as generated from the CPR and apply that percentage to the GL balance. An example of this is the Cat. 3 and 4. adjustments. The percentage of 3 equipment that should be allocated to 2232 to 2212 from the CPR is applied to the GL balance.

AAD RESPONSE

The Beneficiary stated that it does not agree with this finding. The Beneficiary indicated that it does not agree with the COE CPR to general ledger differences. The Beneficiary asserted that it has reported its COE balances based on ratios using the September 30, 2014 CPR to the December 31, 2014 general ledger balances. AAD clarifies that the Part 64 adjustments noted in the table listed in the condition section relates to the cost study adjustments as of September 30, 2014. Per 47 C.F.R. §§ 32.2000(e)(f)(6), the company shall prepare and maintain the basic property record as follows:

(i) Not later than June 30 of the year following that in which the company becomes subject to this system of accounts, begin the preparation of a basic property record.

(ii) Complete within two years of the prescribed beginning date, basic property records for all property as of the end of the preceding calendar year.

Therefore, AAD determined that the CPR was not updated to reflect activity as of December 31, 2014 and reconciled to its December 31, 2014 general ledger balances, which the Beneficiary should have used to report for its High Cost fillings. Thus, AAD's position remains unchanged.

Finding #9: 47 C.F.R. § 32.2(a)(b) - Misclassified Assets and Expenses

CONDITION

AAD obtained and examined the Beneficiary's general ledger, Continuing Property Records (CPR) and cost study adjustments documentation to determine whether the Beneficiary recorded its assets and expenses, including a non-statistical sample of 35 assets transactions totaling $23,242,799 and 32 expense transactions totaling $523,584, to the proper general ledger account for High Cost program purposes. The Beneficiary did not properly classify several transactions, as described below.

The Beneficiary incorrectly recorded two of the 32 expense samples totaling $8,028 related to Customer Premise Equipment (CPE) to Account 6420 (Cable and Wire Facilities Expense). These expense transactions should have been capitalized and recorded to Account 2423 (Buried Cable) and related Cable and Wire Facilities accumulated depreciation and depreciation expense.[37]

In addition, the Beneficiary incorrectly recorded one of the 32 expense samples totaling $580 related to telecommunication news subscription to Account 6212 (COE Switching Expense) instead of Account 6720 (General Administrative Expense).[38]

[37] 47 C.F.R. § 32.2423 (2014).

[38] 47 C.F.R. § 32.6720 (2014).

Furthermore, the Beneficiary did not record two cost study adjustments related to the reclassification of cable modem equipment and accumulated depreciation to Account 2362 (Other Terminal Equipment) totaling $335,781 and Account 3100-2362 (Accumulated Depreciation-Other Terminal Equipment) totaling $23,264, and one cost study adjustment to correct the recording of air conditioning, fiber, and Ethernet investment in which the Beneficiary did not record the accumulated depreciation in Account 3100-2232 (Accumulated Depreciation - Circuit Equipment) totaling $1,314. The Beneficiary recorded these adjustments relating to December 31, 2014 transactions in its September 30, 2015 High Cost filing; however, the Beneficiary omitted these adjustments in its December 31, 2014 cost study.

In addition, one cost study adjustment recorded in December 31, 2014 was omitted in the September 30, 2015 cost study. AAD examined the general ledger and determined that the Beneficiary did not record the related adjustment in its financial records; therefore, the Beneficiary should have recorded this adjustment in it September 30, 2015 cost study.

Finally, the Beneficiary recorded two cost study adjustments in December 31, 2014 and September 30, 2015 cost study, respectively, related to expense allocation to its affiliated entity for a leased switch equipment to the incorrect amounts. For the December 31, 2014, the Beneficiary adjusted its Account 6212 (COE Switching Expense) balance by $55,853 and Account 6561-6212 (Depreciation Expense – COE Switching Expense) balance by $94,563. Based on Beneficiary's cost study documentation, the Beneficiary inverted the accounts and recorded the amount to the incorrect account. Thus, Account 6212 (COE Switching Expense) was understated by $38,720 and Account 6561-6212 (Depreciation Expense – COE Switching Expense) was overstated by $38,720. For the September 30, 2015, the Beneficiary adjusted its Account 6212 (COE Switching Expense) balance by $55,853 and Account 6561-6212 (Depreciation Expense – COE Switching Expense) balance by $88,820. Thus, Account 6212 (COE Switching Expense) was understated by $32,967 and Account 6561-6212 (Depreciation Expense – COE Switching Expense) was overstated by $32,967.

Because the Beneficiary did not properly classify these transactions, AAD concludes that the Beneficiary did not record its assets and expenses to the proper general ledger account for High Cost program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly record assets and expenses to the proper general ledger account for High Cost program purposes. The Beneficiary informed AAD that it inadvertently recorded the CPE and new subscription to the incorrect accounts. In addition, the Beneficiary stated that it believes it recorded its switch lease using a ratio of minutes of use and only records depreciation in its books. Finally, the Beneficiary indicates that cost study adjustments at December 31, 2014 and September 30, 2015 were based on its general ledger and not based on its September 30, 2014 and 2015 CPRs.[39]

EFFECT

AAD calculated the monetary effect for this finding by adding or subtracting the recorded value of the asset and expense transactions from the total amount reported by the Beneficiary in the respective accounts in its High Cost filing. AAD summarized the results below:

[39] Beneficiary responses to audit results summary, received April 2, 2020.

Support Type	Monetary Effect
HCL	$7,643
ICLS	$(9,215)
CAF ICC	$0
Total	**$(1,572)**

RECOMMENDATION

The Beneficiary must implement an adequate system to properly record assets and expenses to the proper general ledger account for High Cost program purposes. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure the recording of transactions to the proper Part 32 accounts and that transactions and adjustments are processed to the proper accounting periods for the account balances that are submitted for High Cost program purposes. In addition, the Beneficiary can 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

With regard to the $580 invoice coding error, we have conducted training with the colleague who made the error.

With regard to the switch lease adjustment, we disagree with this assessment [sic]. The way the Switch Lease works is by looking at MOU between companies using the switch. The ratio of MOU is used to transfer a portion of the switching investment to the corresponding company. The reserve portion and expense are taken as a portion of the transfering [sic] switch investment to the book balance. As for the depreciation expense, this is calculated off by applying effective depreciation rate to the amount of investment being transferred from HTC.

With regard to the CPR adjustments, Hargray's CPR is done as of 9/30. Therfore [sic], the 12/31/2014 filing used the 9/30/2014 CPR. The 9/30/2015 does cover the 12/31/2014 period, since it is 10/1/2014 to 9/30/2015. However, this information is not available at the time of the 12/31/2014 filing. Adjustments done as of 12/31/2014 were done pertaining to the correct CPR used at that time; in this case, the 9/30/2014.

Since the time of the audit, Hargray has put forth mechanisms to improve its CPR process, including proper capitalization of investments. Customer Premise Equipment (CPE) has been adjusted to the proper account for subsequent USF filings. In addition, the study adjustments noted in the finding have since been booked. Hargray will continue to review its internal procedures and ensure future assets and expenses are coded correctly.

AAD RESPONSE

The Beneficiary stated that it does not agree this finding as it relates to 1) switch lease adjustment, and 2) CPR adjustments. The Beneficiary asserts that the switch lease transferred portion of the investments based on minutes of use (MOU), and the reserve and expense are also transferred out in a similar manner. AAD clarifies that there is no FCC Rule violation as to how the Beneficiary derived amounts to allocate costs related to the switch among affiliates based on MOU were calculated. As stated in the Condition, AAD determined the overstatements of Account 6561-6212 (Depreciation Expense – COE Switching Expense) and the understatements of Account 6212 (COE Switching Expense) were due to an inversion of the adjustment journal entry.

Regarding the usage of adjustment amounts for the different Dash fillings based on its CPRs, the Beneficiary provided documentation including vendor invoices to support CPR adjustments. AAD determined, for assets in use, there were adjustments in both periods that the Beneficiary did not properly adjust in its correct period. For example, the invoices to support CPR adjustment #1 in the September 30, 2015 Cost Study were all dated prior to September 30, 2014 and thus were available to the Beneficiary for the December 31, 2014 High Cost filing. AAD clarifies that information was readily available to the Beneficiary for the assets in both periods (*i.e.*, both Dash fillings).

Finding #10: 47 C.F.R. § 64.901(a) – Improper Inclusion of Non-Regulated Amounts and Inaccurate Cost Study Adjustments

CONDITION

AAD obtained and examined the Beneficiary's general ledger, including a non-statistical sample of 32 expense transactions totaling $523,584 and documentation to support the Beneficiary's cost study adjustments, to determine whether non-regulated costs were excluded from the account balances reported for High Cost program purposes.

Improper Inclusion of Non-Regulated Amounts

AAD determined that the Beneficiary made four cost study adjustments for the periods ended December 31, 2014 and September 30, 2015, respectively, using incorrect inputs that included non-regulated costs in the account balances reported for High Cost program purposes, as summarized here:

a) Two cost study adjustments used a miscalculated general allocation factor due to input error. These adjustments impacted several accounts such as Account 6362 (Inside Wire), Account 6561-2311 (Depreciation-Telecommunications Plant in Service), Account 6561-2362 (Depreciation-Inside Wire), Account 6125 (Other Expense) Account 6561-2112 (Motor Vehicle- Construction) and 6561-2124 (General Purpose Computer Depreciation);
b) Two cost study adjustments recorded expense balances containing both regulated and non-regulated activity without adjusting the non-regulated portion for High Cost Purposes on Account 6534 (Plant Operations Administration Expense) and Account 6535 (Engineering Expense).

In addition, the Beneficiary did not record four cost study adjustments in the appropriate period. Specifically, the Beneficiary recorded four cost study adjustments in the September 30, 2015 data period (*i.e.*, Dash 4 filing) that relate to 2014 transactions, and it failed to record these adjustments in its December 31, 2014 data period (*i.e.,* Dash 1 filing).[40]

As a result of the inclusion of non-regulated costs in its account balances reported for High Cost program purposes, the Beneficiary overstated (understated) amounts in the following accounts:

Account Description	Variance for the 12 months ended December 31, 2014 Overstated/ (Understated)	Variance for the 12 months ended September 30, 2015 Overstated/ (Understated)
Land & Support Assets (Acct 2110)	$(33,787)	$(2,395)
Accumulated Depreciation (AD) - Land & Support Assets (Acct 3100-2100)	$21,118	$1,521
COE Transmission (Acct 2230)	$627,217	$0
AD - COE Transmission (Acct 2230)	$(43,456)	$0
Network Support Expense (Acct 6110)	($103)	$(6)
General Support Expense (Acct 6120)	$(9,343)	$(839)
Network Operating Expense (Acct 6530)	$546	$951
Customer Operations Services Expense (Acct 6620)	$(94)	$(6)
General Admin. Expense (Acct 6720)	$(7,634)	$(531)
Operating Taxes (Acct 7200)	$(1,608)	$(114)
Benefits Portion (Acct 6110-Benefits)	$(8)	$(10)
Benefits Portion (Acct 6120-Benefits)	$(755)	$(3,319)
Depreciation Expense - COE Transmission (Acct 6560-2230)	$43,456	$0

Inaccurate Cost Study Adjustments
AAD obtained and examined the Beneficiary's supporting documentation for all 112 cost study adjustments (i.e., 51 adjustments for its December 31, 2014 High Cost (HC) data filing and 61 adjustments for its September 30, 2015 HC data filing) to determine whether the Beneficiary's cost study adjustments were accurately calculated for High Cost (HC) Program purposes. The Beneficiary made errors in its calculations used to cost allocate nine of its 112 cost study adjustments for certain asset (including the associated depreciation accounts) and expense accounts for its December 31, 2014 and September 30, 2015 HC data filings. Thus, AAD noted the following differences in the Beneficiary's account balances as a result of the Beneficiary's recorded cost study adjustments and AAD's recalculation of the adjustments:

Account Description	Variance for the 12 months ended December 31, 2014 Overstated/ (Understated)	Variance for the 12 months ended September 30, 2015 Overstated/ (Understated)

[40] 47 C.F.R. § 32.12(a) (2014).

COE Switching (Acct 2212)	$(294)	$(294)
Accumulated Depreciation - COE Switching (Acct 3100-2212)	$284	$289
Net Noncurrent Deferred Operating Income Taxes (NNDOIT) - Land & Support Assets (Acct 4340-2110)	$35,117	$(16,828)
NNDOIT - COE Switching (Acct 4340-2210)	$48,190	$(22,353)
NNDOIT - COE Transmission (Acct 4340-2230)	$91,764	$(43,400)
NNDOIT - IOT (Acct 4340-2310)	$777	$(298)
NNDOIT - C&WF (Acct 4340-2410)	$211,070	$(99,452)
Digital Electronic-COE Switching Expense (Acct 6212)	$(15)	$(14)
Circuit Equipment -COE Transmission Expense (Acct 6232)	$(71)	$(6,653)
General Administrative Expense (Acct 6721)	$(7,707)	$6,059
Operating Taxes (Acct 7240)	$0	$595

Because the Beneficiary did not properly exclude non-regulated amounts from the total amounts reported and did not accurately calculate its cost study adjustments, AAD concludes that the Beneficiary did not report the correct amounts for High Cost program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude non-regulated amounts from the amounts reported for High Cost program purposes. The Beneficiary stated that its Part 64 cost study worksheet provided during the audit did not clearly track out the non-regulated and regulated balances.[41]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the value of the overstatement from, or adding the understatement to, the total amount reported by the Beneficiary in the respective accounts in its High Cost filing. AAD summarized the results below:

Support Type	Monetary Effect
HCL	$(1,253)
ICLS	$(4,661)
CAF ICC	$0
Total	**$(5,914)**

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 FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will 1) remove non-regulated transactions from the account balances, 2) perform a quality assurance review of inputs to ensure accuracy of the allocation factors, and 3) perform a quality assurance review of the data submission to ensure inclusion of all applicable costs study adjustments that are submitted for High Cost program purposes.

[41] Beneficiary response to exception summary, received April 2, 2020.

More information about documentation and reporting requirements may be found 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

Hargray Telephone Company agrees with the finding. Going forward, Hargray will work to properly develop the Part 64 adjustment to track the non-regulated and regulated balances. In addition, Hargray has improved its internal process regarding collecting, reporting, and monitoring non-regulated assets and expenses. This change in process will help to create proper allocation factors.

As for booking study adjustments, Hargray will continue to work to ensure all study adjustments are properly allocated and based on the proper period. This study adjustment identified specifically pertain to CPR adjustments. As such, working to improve the CPR process as previously mentioned, will inherently increase accuracy and reduce the need for adjustments and where necessary, Hargray will act promptly to book adjustments into the correct time period.

Finding #11: 47 C.F.R. § 51.917(d)(v) – Inaccurate Revenues: Intrastate Terminating Switched Access Service and Interstate Switched Access Service Revenues

CONDITION

AAD obtained and examined the Beneficiary's billing reports and general ledger to determine whether the Beneficiary reported accurate Intrastate Terminating Switched Access Service Revenues (Intrastate Revenues) and Interstate Switched Access Revenues (Interstate Revenues) for High Cost program purposes. The total Intrastate Revenues and Interstate Revenues that were identified on the Beneficiary's billing reports and general ledger did not agree to the revenues reported by the Beneficiary. The differences are summarized below:

Revenues	Program Year 2013-2014	Program Year 2014-2015
Intrastate - As Reported	$113,265	$86,526
Intrastate - Per the Billing Report and General Ledger	$171,845	$123,172
Over/(Under) Stated Intrastate Revenues	**$(58,580)**	**$(36,646)**
Interstate – As Reported	$2,004,949	$1,686,858
Interstate - Per the Billing Report and General Ledger	$1,893,290	$1,501,682
Over/(Under) Stated Interstate Revenues	**$111,659**	**$185,176**

Because the Beneficiary's supporting documentation (the billing report and the general ledger) did not agree to the amounts that were reported, AAD concludes that the Beneficiary did not accurately report its Intrastate Revenues and Interstate Revenues. Per the FCC Rules, the true-up revenues from an access service are equal to the projected demand minus the actual realized demand for that service times the default transition rate for that service.[42] Thus, AAD used the general ledger as the basis for the actual realized demand for the Interstate and Intrastate revenues.[43] The Beneficiary must report accurate Intrastate and Interstate Revenues for High Cost program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to accurately report Intrastate and Interstate Revenues reported for High Cost purposes.

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount or adding the understated amount from/to the total amount reported by the Beneficiary in the respective accounts on the CAF ICC filing. AAD summarized the results below:

Support Type	Monetary Effect
CAF ICC	$(100,163)
HCL	$0
ICLS	$0
Total	**$(100,163)**

RECOMMENDATION

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 FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary collects and retains documentation, and reconciles revenue balances from its billings recorded in its financial records and included in the CAF ICC to ensure the accuracy of revenue balances submitted for High Cost program purposes. In addition, the Beneficiary may learn more about documentation and reporting requirements at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Hargray will make the changes suggested by USAC.

Finding #12: 47 C.F.R. § 54.1305(i) and 47 C.F.R. § 54.903(a)(1) – Inaccurate Loop and Access Line Count Reporting

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing to determine whether the Beneficiary reported the accurate loop counts as of December 31, 2014 and September 30, 2015 in its High Cost filings. AAD identified the following differences between the Beneficiary's subscriber listing and the Total Loops and Category 1.3 Loops reported for High Cost program purposes:

[42] 47 CFR § 51.917(b)(6).

[43] The billing report may not represent the actual realized demand because of timing differences and other adjustments included in the general ledger.

Loop Counts as of December 31, 2014			
Description	Loop Counts Reported	Loop Counts Per Subscriber Listing	Variance Over/(Under) Reported
Total Loops	24,460	23,291	1,169
Category 1.3 Loops	24,323	23,161	1,162

Loop Counts as of September 30, 2015			
Description	Loop Counts Reported	Loop Counts Per Subscriber Listing	Variance Over/(Under) Reported
Total Loops	22,886	20,821	2,065
Category 1.3 Loops	22,749	20,696	2,053

In addition, AAD mapped the physical address of each subscriber noted on the Beneficiary's subscriber listing to determine whether the subscribers' addresses were located within the Beneficiary's designated study area. AAD noted that 176 subscribers, as of December 31, 2014, and 77 as of September 30, 2015, were located outside the Beneficiary's designated service area.

AAD also noted that the Beneficiary overstated its residential/single-line business line counts by 679 access lines and overstated its multi-line business counts by 425 access lines on the FCC Form 507.

Because the Beneficiary's supporting documentation did not agree to what it reported in its HC filing and it included subscriber addresses that were located outside of the Beneficiary's designated study area, AAD concludes that the Beneficiary reported inaccurate loop and access line counts.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate loop and access line counts for High Cost program purposes. The Beneficiary informed AAD that it is creating a new business rules for a billing system to be implemented in October 2020 to address the loop count issue."[44]

EFFECT

AAD calculated the monetary effect for this finding by deducting the inaccurate loop counts from the Total Loops/Category 1.3 Loops or the inaccurate access line count reported by the Beneficiary in respective accounts in its High Cost program filings. AAD summarized the results below:

Support Type	Monetary Effect
HCL	$(656,403)
ICLS	$8,173
CAF ICC	$0
Total	**$(648,230)**

[44] Beneficiary responses to audit results summary, received April 2, 2019.

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 FCC Rules. The Beneficiary must develop and implement policies, procedures and processes that describe how the Beneficiary will ensure it has an adequate system in place to accurately report the number of loops and access lines for High Cost program purposes. In addition, the Beneficiary can 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

> Hargray is implementing a new billing and back office system that will eliminate the potential for this type of error.

Finding #13: 47 C.F.R. §§ 64.901(b)(3)(ii), § 32.27 – Improper Allocation Methodology – Affiliated Transactions and Expense Transactions

CONDITION

AAD obtained and examined the Beneficiary's general ledger, cost study adjustments documentation, including documentation to support the Beneficiary's cost study allocation factors, service charge schedule, lease agreements, consolidated balance sheet and income statement, active line count voice line report, and job titles and duties performed, to determine whether the Beneficiary's cost study adjustments, affiliate transactions and expenses were accurately calculated for High Cost program purposes for the twelve months ending December 31, 2014 and for the twelve months ending September 30, 2015. AAD selected a non-statistical sample of 32 expenses transactions totaling $523,584 and six affiliate expense transactions totaling $614,300 for testing.

Pursuant to 47 § C.F.R. 64.901(b)(3)(ii), beneficiaries must allocate indirect costs using a cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. The Beneficiary's parent company allocated management service charges to the Beneficiary and its affiliates based on equal weighting of five factors, namely, employee count, plant in service, operating margin, access lines, and revenues.

Specifically, the Beneficiary recorded a monthly management service charge accrual and adjusted the amount at year end as a cost study adjustment that is based on service charge allocation factors mentioned in the preceding paragraph. Further, AAD noted that the allocation of the service charge was based on inaccurate factors, as follows:

- The service charges were allocated based on operating margin and revenues, which were not cost causative factors.
- The allocation factors used for the management service charge year-end true–up cost study adjustments were miscalculated due to the following input errors:
  - o The Beneficiary did not utilize the most updated and accurate allocation percentages for its expense allocation based on its analysis of job titles and responsibilities. In addition, the carrier allocated 100% of its Internal Help Desk Support Technician to General Administrative Expense (Account 6728) instead of allocating it between General Support Expense (Account 6124) and General Administrative Expense (Account 6728) based on its job function;

- The Beneficiary used an incorrect amount of $1,350,333 for the Equity Bonus that was included in the expense allocation instead of $1,250,333 per the audited Consolidated Statements of Cash Flows;
- The Beneficiary incorrectly calculated the total service charge to be allocated among the affiliated entities by using an average amount instead of the ending balance.

- The Beneficiary was unable to provide documentation to support an additional monthly service charge adjustment of $125,000 to Account 6121 (Customer Service Marketing Expense) and the $34,237 Construction in Progress used to calculate the service charges.

Thus, AAD noted the following differences between the Beneficiary's cost study adjustments and AAD's recalculation of the adjustments:

Account Description	Variance for the 12 months ended December 31, 2014 Overstated/ (Understated)	Variance for the 12 months ended September 30, 2015 Overstated/ (Understated)
Land and Building Expense (Acct 6121)	$(12,000)	$(12,000)
General Purpose Computers Expense (Acct 6124)	$(312,000)	$(312,000)
Network Administration Expense (Acct 6532)	$(180,000)	$(180,000)
Testing Network Operations Expense (Acct 6533)	$(132,000)	$(132,000)
Plant Operations Administration Expense (Acct 6534)	$(768,000)	$(768,000)
Engineering Expense (Acct 6535)	$(279,600)	$(279,600)
Sales Expense (Acct 6612)	$(2,059,788)	$(2,059,788)
Customer Services Expense (Acct 6623)	$(2,400)	$(2,400)
Information Management Expense (Acct 6724)	$24,000	$24,000
Other General and Administrative Expense (Acct 6728)	$6,000	$6,000
Other Operating Taxes (Acct 7240)	$(103,200)	$(103,200)

In addition, the Beneficiary did not provide adequate documentation to substantiate that the allocation methodology applied to four of the 32 expense samples, two of which relate to affiliate transactions, were in accordance with the FCC Rules.[45]

Furthermore, the Beneficiary did not have adequate documentation to substantiate the allocation of a building lease between the Beneficiary and an affiliate, in which the Beneficiary recorded $96,000 annual rental expense in General Support Expense (Account 6121).

Thus, AAD concludes that the Beneficiary's adjustments were not properly calculated, recorded in the proper amount, and based on cost causative factors. Additionally, AAD concludes that the cost study balances were not accurately reported for High Cost program purposes.

[45] AAD calculated the monetary effect of the two expense samples with inadequate documentation to substantiate allocation methodology at Finding 13 - Inadequate Documentation: Assets and Expenses; thus, to prevent double-counting, AAD did not calculate the monetary effect for these two transactions in this Finding.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that factors used to allocate rate base accounts for intercompany and regulated and nonregulated transactions are based on updated information, cost causative factors, and accurate calculations.

EFFECT

AAD calculated the monetary effect for this finding by adding or deducting the recorded values listed on the table above and the $96,000 related to building lease from the total amount reported by the Beneficiary in its respective accounts on its HCL Form and/or the ICLS Revenue Requirement (Part 36). AAD summarized the results below:

Support Type	Monetary Effect
HCL	$(579,115)
ICLS	$(585,811)
CAF ICC	$0
Total	**$(1,164,926)**

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 FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure the recording of transactions to the proper Part 32 accounts and ensure that allocations are accurately calculated and adequately supported for allocated balances that are submitted for High Cost program purposes, including the following:

1. Implement a review process that ensures the use of updated data to perform allocation and that the allocations are accurately calculated.
2. Implement policy and review process to ensure that the Beneficiary must allocate indirect cost using a cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.
3. Implement a review process to ensure that the Beneficiary utilizes the updated factors to propose adjustment to balances submitted for High Cost program purposes.
4. Implement policy that the Beneficiary must retain supporting documentation for all allocation calculations applied to balances submitted for High Cost program purposes.

The Beneficiary can 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

Hargray has implemented USAC's recommendation with regard to changes in its service charge allocation process. It is also important to note that this identical issue has arisen in the audit of an affiliated entity. While this issue caused Hargray Telephone to be underpaid by ~$1M, it caused an overpayment by the affiliated entity of ~$100k. Hargray askes [sic] that the $1M underpayment be allowed to offset the alleged $100k overpayment to an affiliated entity.

AAD RESPONSE

In its response, the Beneficiary does not dispute the finding; however, the Beneficiary request that the monetary effect noted for this finding be offset to the monetary effect noted for an affiliated entity. AAD's clarifies that the Beneficiary affiliated entity's support is not within the scope of this audit. If the Beneficiary believes that adjustments to its settlements should be made as a result of the outcome of the audit, the Beneficiary must contact NECA to discuss this issue.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2) (2014)	"(g) Depreciation accounting (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."
#2	47 C.F.R. § 54.320(b) (2014)	"(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."
#2	47 C.F.R. § 32.2212 (2014)	***"Digital electronic switching.*** (a) This account shall include the original cost of stored program control digital switches and their associated equipment. Included in this account are digital switches which utilize either dedicated or non-dedicated circuits. This account shall also include the cost

Finding	Criteria	Description
		of remote digital electronic switches. The investment in digital electronic switching equipment shall be maintained in the following subaccounts: 2212.1 Circuit and 2212.2 Packet. (b) This subaccount 2212.1 Circuit shall include the original cost of digital electronic switching equipment used to provide circuit switching. Circuit switching is a method of routing traffic through a switching center, from local users or from other switching centers, whereby a connection is established between the calling and called stations until the connection is released by the called or calling station. (c) This subaccount 2212.2 Packet shall include the original cost of digital electronic switching equipment used to provide packet switching. Packet switching is the process of routing and transferring information by means of addressed packets so that a channel is occupied during the transmission of the packet only, and upon completion of the transmission the channel is made available for the transfer of other traffic. (d) Digital electronic switching equipment used to provide both circuit and packet switching shall be recorded in the subaccounts 2212.1 Circuit and 2212.2 Packet based upon its predominant use. (e) Switching plant excludes switchboards which perform an operator assistance function and equipment which is an integral part thereof. It does not exclude equipment used solely for the recording of calling telephone numbers in connection with customer dialed charged traffic, dial tandem switchboards and special service switchboards used in conjunction with private line service; such equipment shall be classified to the particular switch that it serves.”
#2	47 C.F.R. § 32.2232 (2014)	***“Circuit equipment.*** (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.

Finding	Criteria	Description
		(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."
#2	47 C.F.R. § 32.2422 (2014)	**"Underground cable.** (a) This account shall include the original cost of underground cable installed in conduit and of other material used in the construction of such plant. Subsidiary record categories, as defined below, are to be maintained for nonmetallic underground cable and metallic underground cable. (1) Nonmetallic cable. This subsidiary record category shall include the original cost of optical fiber cable and other associated material used in constructing a physical path for the transmission of telecommunications signals. (2) Metallic cable. This subsidiary record category shall include the original cost of single or paired conductor cable, wire and other associated material used in constructing a physical path for the transmission of telecommunications signals. (b) The cost of pumping water out of manholes and of cleaning manholes and ducts in connection with construction work and the cost of permits and privileges for the construction of cable and wire facilities shall be included in the account chargeable with such construction. (c) The cost of drop and block wires served by underground cable shall be included in Account 2423, Buried Cable. (d) The cost of cables leading from the main distributing frame or equivalent to central office equipment shall be included in the appropriate switching, transmission or other operations asset account."
#2, 9	47 C.F.R. § 32.2423 (2014)	***"Buried cable.*** (a) This account shall include the original cost of buried cable as well as the cost of other material used in the construction of such plant. This account shall also include the cost of trenching for and burying cable run in conduit not classifiable to Account 2441, Conduit Systems. Subsidiary record categories, as defined below, are to be maintained for nonmetallic buried cable and metallic buried cable. (1) Nonmetallic cable. This subsidiary record category shall include the original cost of optical fiber cable and other associated

Finding	Criteria	Description
		material used in constructing a physical path for the transmission of telecommunications signals. (2) Metallic cable. This subsidiary record category shall include the original cost of single or paired conductor cable, wire and other associated material used in constructing a physical path for the transmission of telecommunications signals. (b) The cost of pumping water out of manholes and of cleaning manholes and ducts in connection with construction work and the cost of permits and privileges for the construction of cable and wire facilities shall be included in the account chargeable with such construction."
#2	47 C.F.R. § 32.2441 (2014)	***"Conduit systems.*** (a) This account shall include the original cost of conduit, whether underground, in tunnels or on bridges, which is reusable in place. It shall also include the cost of opening trenches and of any repaving necessary in the construction of conduit plant. (b) The cost of pumping water out of manholes and of cleaning manholes and ducts in connection with construction work and the cost of permits and privileges for the construction of cable and wire facilities shall be included in the account chargeable with such construction. (c) The cost of protective covering for buried cable shall be charged to Account 2423, Buried Cable, as appropriate, unless such protective covering is reusable in place. The amounts thus charged shall be included in the nonmetallic buried cable or metallic buried cable subsidiary record category, as appropriate. (d) The cost of pipes or other protective covering for underground drop and block wires shall be included in Account 2421, Aerial Cable, or Account 2423, Buried Cable, as appropriate. The amounts thus charged shall be included in the nonmetallic or metallic subsidiary record category, as appropriate."
#2	47 C.F.R. § .32.6124 (2014)	***"General purpose computers expense.*** 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."
#2	47 C.F.R. § 32.6422 (2014)	**"Underground cable expense.** (a) This account shall include expenses associated with underground cable. (b) Subsidiary record categories shall be maintained as provided in §32.2422(a) of subpart C."
#2	47 C.F.R. § 32.6423 (2014)	**"Buried cable expense.** (a) This account shall include expenses associated with buried cable.

Finding	Criteria	Description
		(b) Subsidiary record categories shall be maintained as provided in §32.2423(a) of subpart C.”
#2	47 C.F.R. § 32.6534 (2014)	***“Plant operations administration expense.*** (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.)”
#2	47 C.F.R. § 32.6535 (2014)	***“Engineering expense.*** (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.)”
#3	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.”
#3	Hargray Telephone Company, Inc. General Customer Services Tariff as approved by the Public Service Commission of South Carolina Effective 1/1/1998	Definition of Terms Residence Service: Exchange service furnished to customers where the actual or obvious use is for domestic purposes.
#4	47 C.F.R. § 51.917(e) (2014)	“Access Recovery Charge. (1) A charge that is expressed in dollars and cents per line per month may be assessed upon end users that may be assessed a subscriber line charge pursuant to §69.104 of this chapter, to the extent necessary to allow the Rate-of-Return Carrier to recover some or all of its Eligible Recovery determined pursuant to paragraph (d) of this section, subject to the caps described in

Finding	Criteria	Description
		paragraph (e)(6) of this section. A Rate-of Return Carrier may elect to forgo charging some or all of the Access Recovery Charge. (2) Total Access Recovery Charges calculated by multiplying the tariffed Access Recovery Charge by the projected demand for the year may not recover more than the amount of eligible recovery calculated pursuant to paragraph (d) of this section for the year beginning on July 1. (3) For the purposes of this section, a Rate-of-Return Carrier holding company includes all of its wholly-owned operating companies. A Rate-of-Return Carrier Holding Company may recover the eligible recovery attributable to any Rate-of-Return study areas operated by its wholly-owned operating companies that are Rate-of-Return incumbent local exchange carriers through assessments of the Access Recovery Charge on end users in any Rate-of-Return study areas operated by its wholly-owned operating companies that are Rate-of-Return incumbent local exchange carriers. (4) Distribution of Access Recovery Charges among lines of different types (i) A Rate-of-Return Carrier that does not receive ICC-replacement CAF support (whether because they elect not to or because they do not have sufficient eligible recovery after the Access Recovery Charge is assessed or imputed) may not recover a higher ratio of its total revenue recovery from Access Recovery Charges assessed on Residential and Single Line Business lines than the following ratio (using holding company lines): (A) The number of Residential and Single-Line Business lines assessed an End User Common Line charge (excluding Lifeline Customers), divided by (B) The sum of the number of Residential and Single-Line Business lines assessed an End User Common Line charge (excluding Lifeline Customers), and two (2) times the number of End User Common Line charges assessed on Multi-Line Business customers. (5) For purposes of this subpart, Residential and Single Line Business lines are lines (other than lines of Lifeline Customers) assessed the residential and single line business end user common line charge. (i) For purposes of this subpart, Multi-Line Business Lines are lines assessed the multi-line business end user common line charge. (ii) [Reserved] (6) Per-line caps and other limitations on Access Recovery Charges. (i) For each line other than lines of Lifeline Customers assessed a primary residential or single-line business end user common line charge pursuant to §69.104 of this chapter, a Rate-of-Return Carrier may assess an Access Recovery Charge as follows: (A) Beginning July 1, 2012, a maximum of $0.50 per month for each line;

Finding	Criteria	Description
		(B) Beginning July 1, 2013, a maximum of $1.00 per month for each line; (C) Beginning July 1, 2014, a maximum of $1.50 per month for each line; (D) Beginning July 1, 2015, a maximum of $2.00 per month for each line; (E) Beginning July 1, 2016, a maximum of $2.50 per month for each line; and (F) Beginning July 1, 2017, a maximum of $3.00 per month for each line. (ii) For each line assessed a multiline business end user common line charge pursuant to §69.104 of this chapter, a Rate-of-Return Carrier may assess an Access Recovery Charge as follows: (A) Beginning July 1, 2012, a maximum of $1.00 per month for each multi-line business end user common line charge assessed; (B) Beginning July 1, 2013, a maximum of $2.00 per month for each multi-line business end user common line charge assessed; (C) Beginning July 1, 2014, a maximum of $3.00 per month for each multi-line business end user common line charge assessed; (D) Beginning July 1, 2015, a maximum of $4.00 per month for each multi-line business end user common line charge assessed; (E) Beginning July 1, 2016, a maximum of $5.00 per month for each multi-line business end user common line charge assessed; and (F) Beginning July 1, 2017, a maximum of $6.00 per month for each multi-line business end user common line charge assessed. (iii) The Access Recovery Charge allowed by paragraph (e)(6)(i) of this section may not be assessed to the extent that its assessment would bring the total of the Rate Ceiling Component Charges above the Residential Rate Ceiling. This limitation does not apply to single-line business customers. (iv) The Access Recovery Charge allowed by paragraph (e)(6)(ii) of this section may not be assessed to the extent that its assessment would bring the total of the multi-line business end user common line charge and the Access Recovery Charge above $12.20 per line. (v) The Access Recovery Charge may not be assessed on lines of Lifeline Customers. (vi) If in any year, the Rate of return carriers' Access Recovery Charge is not at its maximum, the succeeding year's Access Recovery Charge may not increase more than $0.50 per line for charges under paragraph (e)(6)(i) of this section or $1.00 per line for charges assessed under paragraph (e)(6)(ii) of this section.

Finding	Criteria	Description
		(vii) A Price Cap Carrier with study areas that are subject to rate-of-return regulation shall recover its eligible recovery for such study areas through the recovery procedures specified in this section. For that purpose, the provisions of paragraph (e)(3) of this section shall apply to the rate-of-return study areas if the applicable conditions in paragraph (e)(3) of this section are met."
#4	47 C.F.R. § 51.917(f)(2)(2014)	"(f) Rate-of-Return Carrier eligibility for CAF ICC Recovery. (2) Beginning July 1, 2012, a Rate-of Return Carrier may recover any eligible recovery allowed by paragraph (d) of this section that it could not have recovered through charges assessed pursuant to paragraph (e) of this section from CAF ICC Support pursuant to §54.304. For this purpose, the Rate of-Return Carrier must impute the maximum charges it could have assessed under paragraph (e) of this section."
#4	*See also In the Matter of Connect America Fund A National Broadband Plan For Our Future Establishing Just and Reasonable Rates For Local Exchange Carriers High-Cost Universal Service Support Developing an unified Intercarrier Compensation Regime Federal-State Joint Board on Universal Service Lifeline and Link-Up Universal Service Reform – Mobility Fund*, Report and Order and Further Notice of Proposed Rulemaking, WT Docket No. 10-208, FCC 11-161, 26 FCC Rcd. 17663, para. 910 (2011).	910. We permit carriers to determine at the holding company level how Eligible Recovery will be allocated among their incumbent LECs' ARCs.1791 By providing this flexibility, carriers will be able to spread the recovery of Eligible Recovery among a broader set of customers, minimizing the increase experienced by any one customer.1792 This also will enable carriers to more fully recover Eligible Recovery from end-users with rates below the $30 Residential Rate Ceiling, limiting the potential impact on the CAF. 1793 For carriers that elect to receive CAF support, we will impute to each carrier the full ARC revenues they are permitted to collect, regardless of whether they actually collect any or all such revenues. If the imputed amount is insufficient to cover all their Eligible Recovery, they are permitted to recover the remainder from CAF ICC support. n.1791: *See, e.g.,* ABC Plan, Attach. 1 at 12. The ARC's modest and capped size, its interim nature, and the requirement to impute revenue from charging ARCs to multi-line business customers as well as to consumers, together with the $30 Residential Rate Ceiling, will ensure that overall rates remain affordable and set at reasonable levels. Further, while it may be that holding companies will allocate ARC amounts to markets where their incumbent LECs face less competitive pressure, those markets would likely be ones that are relatively costly to serve. *See* Letter from Chris Miller, Assistant General Counsel, Verizon, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No 07-135, WC Docket No. 05-337, CC Docket No. 01- 92, CC Docket No. 96-45, WC Docket No. 03-109, WC Docket No. 04-36, at 1-2 (filed Oct. 20, 2011). n.1792: *In the USF/ICC Transformation NPRM,* we sought comment on allowing carriers to vary the end-user charges based upon network usage, and on further differentiating the magnitude of end-user recovery beyond the categories of customers associated with existing SLC caps. We also sought comment regarding the National Broadband Plan's suggestion that the Commission consider whether

Finding	Criteria	Description
		to deregulate end user charges in areas where states have deregulated local service rates. *See USF/ICC Transformation NPRM*, 26 FCC Rcd at 4737, para. 583. There was little support for such changes. Particularly given the minimal record support, as well as the possibility for consumer confusion resulting from too many variations of SLCs and potential burdens on end users, we find our approach to recovery more appropriate. n.1793: We decline to adopt other flexibility proposals in the record. For instance, in the August 3 Public Notice, we sought comment on the ABC Plan proposal that price cap carriers be allowed to choose between different SLC options depending on whether or not they choose to take ICC revenue recovery from the CAF in addition to enduser charges. *See August 3 Public Notice*, 26 FCC Rcd at 11124-28. We do not find a basis in the record for such differential treatment of customers, and instead adopt a uniform approach for price cap carriers.
#5	47 C.F.R. § 32.6112(b) (2014)	**"Motor vehicle expense** (b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours."
#5	47 C.F.R. § 32.6114(b) (2014)	**"Tools and other work equipment expense** (b) Credits shall be made to this account for amounts related to special purpose vehicles and other work equipment transferred to Construction and/ or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours."
#5	47 C.F.R. § 32.6512(b) (2014)	**"Provisioning expense** (b) Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge."
#5	47 C.F.R. § 32.6534(b) (2014)	**"Plant operations administration expense** (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."
#6	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."
#6	47 U.S.C. § 254 (e) (2014)	"After the date on which Commission regulations implementing this section take effect, only an eligible telecommunications carrier designated under section 214(e) of this title shall be eligible to receive specific Federal universal service support. A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Any such support should be explicit and sufficient to achieve the purposes of this section."

Finding	Criteria	Description
#6	15-133: *FCC Reminds ETCs of High-Cost Support Requirements*, WC Docket No. 10-90, Public Notice, FCC 30 FCC Rcd 11821, 11822 (2015)	"Under federal law, high-cost support provided to an ETC must be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol; • Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; • Political contributions; • Charitable donations; • Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and" Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages."
#6	FCC 18-29: *Connect America Fund, et al.*, WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, 33 FCC Rcd 2990, 2994, para. 10 (2018)	"19. Personal Expenses.—Initially, we codify the existing prohibition on recovery from the high-cost program for personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for personal travel, personal vehicles, housing, such as rent, mortgages, or housing allowances, childcare, employee gifts, and entertainment-related expenses including food and beverage, regardless of whether such expenses are paid directly by the individual or indirectly by the carrier in the form of allowances or gifts.47 Personal expenses are clearly not used for the provision of supported services and thus may not be recovered through high-cost support.48 Furthermore, we caution recipients of high-cost support that recovering these types of expenses from high-cost support may constitute outright fraud, waste, and abuse on the Fund, subjecting employees, executives, and board members to personal civil and criminal liability. 20. The Commission already explicitly excludes personal travel expenses from high-cost support recovery.50 Personal travel expenses include airfare, car rentals, gas, lodging, and meals for personal use. Commenters overwhelmingly agree that personal travel is unrelated to the provision of a supported service and may

Finding	Criteria	Description
		not be recovered through high-cost support.51 In response to concerns raised by commenters, we find that, in contrast to personal travel expenses, reasonable work-related travel expenses are recoverable to the extent they are used for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended.52 For example, if an ETC's technician travels to repair a supported facility and such travel requires overnight accommodation, the ETC may recover that employee's reasonable hotel costs. 25. It is undisputed that gifts to employees may not be recovered through high-cost support.64 Gifts to employees are unrelated to the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended, and therefore are excluded from high-cost support. 28. Expenses Unrelated To Operations.—We next codify the existing prohibitions on recovering support for expenses unrelated to operations—including political contributions, charitable donations, scholarships, membership fees and dues in clubs and organizations, sponsorships of conferences or community events, and penalties or fines for statutory or regulatory violations, penalties or fees for late payments on debt, loans, or other payments—from high-cost support.76 ETCs calculate highcost universal support, including high cost loop support (HCLS) and Connect America Fund Broadband Loop Support (CAF BLS) (formerly interstate common line support (ICLS)), based on their eligible capital investment and operating expenses pursuant to section 54.303.77 Expenses unrelated to operations, however, are not currently included in these high-cost support calculations.78 Instead, under our current rules, "nonoperating expenses"—including political contributions, contributions for charitable, social, or community welfare purposes, membership fees and dues in social, service and recreational or athletic clubs and organizations, and penalties and fines on account of violations of statutes—are recorded in Account 7300, presumed excluded from the costs of service in setting rates, and not included in high-cost support calculations.79 Expenses unrelated to operations have historically not been recoverable from high-cost support because by definition these expenses are not operational in nature and are ancillary to core business objectives. Expenses must fall within the scope of the statutory requirement that support be used "only for the provision, maintenance, and upgrading of facilities and services for which support is intended." 80 Below we find that various expenses unrelated to operations, including various Account 7300 nonoperating expenses, do not satisfy this standard and, thus, may not be recovered from high-cost support. 31. Charitable donations and scholarships are expenses unrelated to operations that may not be recovered from high-cost support.87

Finding	Criteria	Description
		We recognize the benefits charitable donations provide to the community, as raised by multiple commenters.88 However, charitable donations are unrelated to the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended.89 32. Membership fees and dues in clubs and organizations, including social, service, and recreational or athletic clubs and organizations, as well as trade associations and organizations that provide professional or trade certifications such as state bar associations, are expenses unrelated to operations excluded from high-cost support.90 Commenters agree that these expenses related to social and recreational clubs and organizations are already excluded from high-cost support recovery.91 But those same and other commenters also argue that membership fees and dues in trade associations, chambers of commerce, state bar associations and professional certifications for specialized employees should be recoverable.92 We recognize the educational and training benefits that trade associations provide and that membership in chambers of commerce may help stimulate business.93 However, as other commenters acknowledge, a function of many of these organizations is advocacy on behalf of their members for the purpose of influencing public policy94 which is not used for the provision, maintenance, and upgrading of facilities and services for which support is intended.95 Just as ETCs may not recover lobbying expenses under our rules, similarly, they may not recover membership fees in organizations that engage in lobbying.96 Further, professional affiliations or certifications such as state bar associations, accounting associations, or other professional groups may facilitate general corporate functions but are not used only for the provision of supported facilities and services."
#7	47 C.F.R. § 61.45(d) (2014)	"The exogenous cost changes represented by the term "Z" in the formula detailed in paragraph (b)(1)(i) of this section shall be limited to those cost changes that the Commission shall permit or require by rule, rule waiver, or declaratory ruling."
#7	*Material to be Filed in Support of 2012 Annual Access Tariff Filings,* Order, WCB/Pricing File No. 12-08, DA 12-575, 27 FCC Rcd. 3960, 3962-63, para. 7 (2012).	"For the purposes of including an increase in a mandatory fee in the SLC, price cap carriers will be permitted to raise the SLC to the maximum level permitted pursuant to sections 69.152(d)(1)(ii), 69.152(e)(1)(i), and 69.152(k)(1)(i) of the Commission's rules, and rate-of-return carriers will be permitted to raise the SLC to the maximum level permitted pursuant to sections 69.104(n)(1)(ii)(c) and 69.104(o)(1)(i) of the Commission's rules. However, if the carrier is already at the maximum SLC level, the carrier will be permitted to include that portion of increases in mandatory TRS, regulatory, or NANPA fees associated with a rate that is capped in their Eligible Recovery for the 2012 annual access charge tariff filing."
#8	47 C.F.R. §§ 32.2000(e)(f) (2014)	"(e) Basic property records.

Finding	Criteria	Description
		(1) The basic property records are that portion of the total property accounting system which preserves the following detailed information: (i) The identity, vintage, location and original cost of units of property; (ii) Original and ongoing transactional data (plant account activity) in terms of such units; and (iii) Any other specific financial and cost accounting information not properly warranting separate disclosure as an account or subaccount but which is needed to support regulatory, cost, tax, management and other specific accounting information needs and requirements. (2) The basic property records must be: (i) Subject to internal accounting controls, (ii) auditable, (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and (iv) maintained throughout the life of the property. (3) The basic property records shall consist of (i) continuing property records and (ii) records supplemental thereto which together reveal clearly, by accounting area, the detailed and systematically summarized information necessary to meet fully the requirements of paragraphs (e)(1) and (e)(2) of this section. (4) Companies shall establish and maintain basic property records for each class of property recorded in the several plant accounts which comprise the balance sheet Account 2001, Telecommunications Plant In Service, Account 2002, Property Held for Future Telecommunications Use, and Account 2006, Nonoperating Plant. (5) The company shall notify the Commission of a plan for the basic property record as follows: (i) Not later than June 30 of the year following that in which it becomes subject to this system of accounts, the company shall file with the Commission two (2) copies of a complete plan of the method to be used in the compilation of a basic property record with respect to each class of property. The plan shall include a list of proposed accounting areas accompanied by description of the boundaries of each area as defined in accordance with the requirements of §32.2000(f)(1) (i) and (ii) of this subpart. The plan shall also include a list of property record units proposed for use under each regulated plant account. These property record units shall be selected such that the requirements of §32.2000(f)(2) (i), (ii) and (iii) of this subpart can be satisfied. (ii) The company shall submit to the Commission one copy of any major proposed changes in its basic property record plan at least 30 days before the effective date of the proposed changes. (6) The company shall prepare and maintain the basic property record as follows: (i) Not later than June 30 of the year following that in which the company becomes subject to this system of accounts, begin the preparation of a basic property record. (ii) Complete within two years of the prescribed beginning date, basic property records for all property as of the end of the

Finding	Criteria	Description
		preceding calendar year. (iii) Promptly process in the basic property records all property changes affecting periods subsequent to initial establishment of the basic property record. (7) The basic property record components (see paragraph (c) of this section) shall be arranged in conformity with the regulated plant accounts prescribed in this section of accounts as follows: (i) The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts). The continuing property records shall be maintained as prescribed in §32.2000(f)(2)(iii) of this subpart in such manner as will meet the following basic objectives: (A) Provide for the verification of property record units by physical examination. (B) Provide for accurate accounting for retirements. (C) Provide data for use in connection with depreciation studies. (ii) The records supplemental to the continuing property records shall disclose such service designations, usage measurement criteria, apportionment factors, or other data as may be prescribed by the Commission in this part or other parts of its Rules and Regulations. Such data are subject to the same general controls and standards for auditability and support as are all other elements of the basic property records. (f) Standard practices for establishing and maintaining continuing property records— (1) Accounting area. (i) The continuing property record, as related to each primary plant account, shall be established and maintained by subaccounts for each accounting area. An accounting area is the smallest territory of the company for which accounting records of investment are maintained for all plant accounts within the area. Areas already established for administrative, accounting, valuation, or other purposes may be adopted for this purpose when appropriate. In no case shall the boundaries of accounting areas cross either State lines or boundaries prescribed by the Commission. (ii) In determining the limit of each area, consideration shall be given to the quantities of property, construction conditions, operating districts, county and township lines, taxing district boundaries, city limits, and other political or geographical limits, in order that the area adopted may have maximum adaptability, within the confines of practicability, for both the company's purpose and those of Federal, State, and municipal authorities. (2) Property record units. (i) In each of the established accounting areas, the "property record units" which are to be maintained in the continuing property record shall be set forth separately, classified by size and type with the amount of original cost (or other appropriate book cost) associated with such units. When a list of property record units has been accepted by the Commission, they shall become the units referred to in this statement of standard practices. Such units shall apply to only the regulated portion of this system of accounts. (ii) When it is

Finding	Criteria	Description
		found necessary to revise this list because of the addition of units used in providing new types of service, or new units resulting from improvements in technology, or because of the grouping or elimination of units which no longer merit separate recognition as property record units, one copy of such changes shall be submitted to the Commission. Upon appropriate showing by the company, the Commission may specifically exempt the company from these filing requirements. (iii) The continuing property record shall reveal the description, location, date of placement, the essential details of construction, and the original cost (note also §32.2000(f)(3) of this subpart) of the property record units. The continuing property record and other underlying records of construction costs shall be so maintained that, upon retirement of one or more retirement units or of minor items without replacement when not included in the costs of retirement units, the actual cost or a reasonably accurate estimate of the cost of the plant retired can be determined. (3) Methods of determining original cost of property record units. The original cost of the property record units shall be determined by analyses of the construction costs incurred as shown by completion reports and other data, accumulated in the respective construction work orders or authorizations. Costs shall be allocated to and associated with the property record units to facilitate accounting for retirements. The original cost of property record units shall be determined by unit identification or averaging as described in paragraphs (f)(3) (i) and (ii) of this section. (i) Unit identification. Cost shall be identified and maintained by specific location for property record units contained within certain regulated plant accounts or account groupings such as Land, Buildings, Central Office Assets, Motor Vehicles, garage work equipment included in Account 2114, Tools and other work equipment, and Furniture. In addition, units involved in any unusual or special type of construction shall be recorded by their specific location costs (note also §32.2000(f)(3)(ii)(B)). (ii) Averaging. (A) Average costs may be developed for plant consisting of a large number of similar units such as terminal equipment, poles, wire, cable, cable terminals, conduit, furniture, and work equipment. Units of similar size and type within each specified accounting area and regulated plant account may be grouped. Each such average cost shall be set forth in the continuing property record of the units with which it is associated. (B) The averaging of costs permitted under the provisions of the foregoing paragraph is restricted to plant installed in a particular vintage or band of years incurred within an accounting area. This paragraph does not permit the inclusion of the cost of units involved in any unusual or special type of construction. The units involved in such unusual or special type of construction shall be recorded at cost by location.

Finding	Criteria	Description
		(4) Estimates. In cases where the actual original cost of property cannot be ascertained, such as pricing an inventory for the initial entry of a continuing property record or the pricing of an acquisition for which a continuing property record has not been maintained, the original cost may be estimated. Any estimated original cost shall be consistent with the accounting practices in effect at the time the property was constructed. (5) Identification of property record units. There shall be shown in the continuing property record or in record supplements thereof, a complete description of the property records units in such detail as to identify such units. The description shall include the identification of the work order under which constructed, the year of installation (unless not determinable per §32.2000(f)(4) of this subpart, specific location of the property within each accounting area in such manner that it can be readily spot-checked for proof of physical existence, the accounting company's number or designation, and any other description used in connection with the determination of the original cost. Descriptions of units of similar size and type shall follow prescribed groupings. (6) Reinstalled units. When units to which average costs are not applied, i.e., specific and fixed location units, are removed or retired and subsequently reinstalled, the date when the unit was first charged to the appropriate plant account shall, when required for adequate service life studies and reasonably accurate retirement accounting, be shown in addition to the date of reinstallation. (7) Age and service life of property. The continuing property record shall disclose the age of existing property and the supporting records shall disclose the service life of property retired. Exceptions from this requirement for any property record unit shall be submitted to the Commission for approval. (8) Reference to sources of information. There shall be shown by appropriate reference the source of all entries. All drawings, computations, and other detailed records which support quantities and costs or estimated costs shall be retained as a part of or in support of the continuing property record. (9) Jointly owned property. (i) With respect to jointly owned property, there shall be shown in the continuing property record or records supplemental thereto: (A) The identity of all joint owners. (B) The percentage owned by the accounting company. (ii) When regulated plant is constructed under arrangements for joint ownership, the amount received by the constructing company from the other joint owner or owners shall be credited as a reduction of the gross cost of the plant in place. (iii) When a sale of a part interest in regulated plant is made, the fractional interest sold shall be treated as a retirement and the amount received shall be treated as salvage. The continuing property record or records supplemental thereto shall be so maintained as to identify separately retirements of this nature from physical

Finding	Criteria	Description
		retirements of jointly owned plant. (iv) If jointly owned regulated property is substantial in relation to the total of the same kind of regulated property owned wholly by the company, such jointly owned regulated property shall be appropriately segregated in the continuing property record.”
#9	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. (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.”
#10	47 C.F.R. § 64.901(a) (2014)	**“Allocation of costs.** (a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.”
#10	47 C.F.R. § 32.12(a) (2014)	“(a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.”
#10	47 C.F.R. § 32.6720 (2014)	***“General and administrative.*** 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.

Finding	Criteria	Description
		(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. (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.

Finding	Criteria	Description
		(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. (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."
#10	47 C.F.R. § 32.4340 (2014)	"**Net noncurrent deferred operating income taxes.** (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. (b) This account shall be credited or debited, as appropriate, and Account 7250, Provision for Deferred Operating Income Taxes—Net, shall reflect the offset for the tax effect of revenues and expenses from regulated operations which have been included in the determination of taxable income, but which will not be included in the determination of book income or for the tax effect of revenues and expenses from regulated operations which have been included in the determination of book income prior to the inclusion in the determination of taxable income. (c) As regulated assets or liabilities which generated the prepaid income tax or deferred income tax are reclassified from long-term or noncurrent status to current status, the appropriate deferred income tax shall be reclassified from this account to Account 4100, Net Current Deferred Operating Income Taxes. (d) The classification of deferred income taxes as current or noncurrent shall follow the classification of the asset or liability

Finding	Criteria	Description
		that gave rise to the deferred income tax. If there is no related asset or liability, classification shall be based on the expected turnaround of the temporary difference. (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."
#10	47 C.F.R. § 36.506 (2014)	***"Net current deferred operating income taxes—Account 4100, Net noncurrent deferred operating income taxes—Account 4340.*** (a) Amounts in these accounts are maintained by plant account and are apportioned among the operations on the basis of the separations of the related plant accounts."
#11	47 C.F.R. § 51.917(d)(v) (2014)	***"Eligible Recovery for Rate-of-Return Carriers.*** (v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year."
#11	47 CFR § 51.917(b)(6) (2014)	"(6) True-up Revenues. True-up Revenues from an access service are equal to (projected demand minus actual realized demand for that service) times the default transition rate for that service specified by §51.909. True-up Revenues from a non-access service are equal to (projected demand minus actual realized net demand for that service) times the default transition rate for that service specified by §20.11(b) of this chapter or §51.705. Realized demand is the demand for which payment has been received, or has been made, as appropriate, by the time the true-up is made."
#12	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."
#12	47 C.F.R. § 54.903(a)(1) (2014)	"Beginning July 31, 2002, each rate-of-return carrier shall submit to the Administrator in accordance with the schedule in §54.1306 the number of lines it serves, within each rate-of-return carrier study area showing residential and single-line business line counts and multi-line business line counts separately. For purposes of this report, and for purposes of computing support under this subpart, the residential and single-line business class lines reported include lines assessed the residential and single-line business End User Common Line charge pursuant to §69.104 of this chapter, and the multi-line business class lines reported include lines assessed the multi-line business End User Common Line charge pursuant to §69.104 of this chapter. For purposes of this report, and for purposes of computing

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		support under this subpart, lines served using resale of the rate-of-return local exchange carrier's service pursuant to section 251(c)(4) of the Communications Act of 1934, as amended, shall be considered lines served by the rate-of-return carrier only and must be reported accordingly."
#13	47 C.F.R. § 64.901(b)(3)(ii) (2014).	**"Allocation of costs.** (b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. (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: (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."
#13	47 C.F.R. § 32.27 (2014)	"***Transactions with affiliates*** (a) Unless otherwise approved by the Chief, Wireline Competition Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section. (b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost. (1) Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (2) Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the

Finding	Criteria	Description
		transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (3) Threshold. For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going forward basis in accordance with the affiliate transactions rules on a going forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed $500,000, the asset(s) shall be recorded at net book cost. (c) Services provided between a carrier and its affiliate pursuant to a tariff including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost. (1) Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (2) Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the

Finding	Criteria	Description
		Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (3) Threshold. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost. (d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied. (e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group. (f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations."

This concludes the audit report.