



High Cost and Low Income Committee Meeting

Audit Reports Briefing Book

Monday, January 24, 2022

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 Report Released: November 2021

| Entity Name | Number of Findings | Significant Findings | Amount of Support | Monetary Effect | USAC Management Recovery Action | Entity Disagreement |
|---|--------------------|--|--------------------|------------------|---------------------------------|---------------------|
| Hart Telephone Company, Inc. Attachment A | 7 | <ul style="list-style-type: none"> <u>Inaccurate Cost Study Adjustments.</u> The Beneficiary submitted inaccurate cost study adjustments in its reporting of certain assets and expenses. | \$2,182,578 | \$279,584 | \$279,584 | Y |
| Total | 7 | | \$2,182,578 | \$279,584 | \$279,584 | |

Attachment A

HC2019LR001

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Hart Telephone Company, Inc.

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund High Cost Support Mechanism Rules

USAC Audit No. HC2019LR001

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EXECUTIVE SUMMARY

July 30, 2021

Melissa F. Green, CFO
Hart Telephone Co., Inc.
196 North Forest Ave
PO Box 388
Hartwell, GA 30643

Dear Ms. Green:

The Universal Service Administrative Company Audit and Assurance Division (USAC AAD) audited the compliance of Hart Telephone Company, Inc. (Hart), study area code 220368, with the disbursements for the year ended December 31, 2018, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, as 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 (2018 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 seven 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
USAC Senior 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. § 64.901(a) – Inaccurate Cost Study Adjustments – Assets and Expenses. The Beneficiary submitted inaccurate cost study adjustments in its reporting of its assets and expenses for High Cost program purposes. | \$158,274 |
| Finding #2: 47 C.F.R. § 64.901(a), 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Improper Inclusion of Non-Regulated Amounts and Support Not Used for Intended Purpose of Federal Universal Support. The Beneficiary included non-regulated costs in its cost study balances reported for High Cost program purposes. | \$116,089 |
| Finding #3: 47 C.F.R. § 36.2(c) – Improper Accounting of Leases. The Beneficiary did not properly account for the computer equipment and building leases as capitalized leases. | \$20,226 |
| Finding #4: 47 C.F.R. § 64.901 - Improper Allocation Methodology. The Beneficiary utilized an estimated percentage instead of a cost causative method, as required by the FCC Rules, to allocate an expense transaction. | \$2,002 |
| Finding #5: 47 C.F.R. § 32.2 (a)(b) Misclassified Assets and Expenses. The Beneficiary misclassified Network Administration expense and expensed a software license that should have been capitalized. | \$1,028 |
| Finding #6: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary reported incorrect depreciation expense amounts in its reporting for High Cost program purposes. | \$(1,319) |
| Finding #7: 47 C.F.R. § 54.320(b) – Lack of Documentation: Asset Categorization. The Beneficiary did not provide documentation to support its assets categorization for certain Central Office Equipment (COE) “Spares” and CWF “Dark Fiber” assets. | \$(16,716) |
| Total | \$279,584 |

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for the Beneficiary (SAC 220368) for the High Cost program support amount noted in the chart below. Note: in the event that the total monetary effect and recovery results in an underpayment, USAC’s High Cost program management will not pay additional support.

The Beneficiary must implement policies and procedures necessary to ensure compliance with the FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct

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

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

| | ICLS (A) | CAF BLS (B) | CAF ICC (C) | USAC Recovery Action (A) + (B) + (C) ² | Rationale for Difference (if any) from Auditor Recommended Recovery |
|----------------------------|------------------|----------------|----------------|---|---|
| Finding #1 | \$158,274 | \$0 | \$0 | \$158,274 | |
| Finding #2 | \$116,089 | \$0 | \$0 | \$116,089 | |
| Finding #3 | \$20,226 | \$0 | \$0 | \$20,226 | |
| Finding #4 | \$2,002 | \$0 | \$0 | \$2,002 | |
| Finding #5 | \$1,028 | \$0 | \$0 | \$1,028 | |
| Finding #6 | \$(1,319) | \$0 | \$0 | \$(1,319) | |
| Finding #7 | \$(16,716) | \$0 | \$0 | \$(16,716) | |
| Mechanism Total | \$279,584 | \$0 | \$0 | \$279,584 | |

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

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

| High Cost Support | Data Period | Disbursement Period | Disbursements Audited |
|---|-------------|------------------------|--------------------------|
| Connect America Fund (CAF) Inter-carrier Compensation (ICC) | 2016-2017 | 2018 | \$1,092,522 |
| Connect America Fund(CAF) Broadband Loop Support (BLS) | 2016 | 2018 | \$1,108,506 |
| Interstate Common Line Support (ICLS) | 2016 | 2018 | \$(18,450) |
| Total | | | \$2,182,578 |

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

² *Id.*

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. 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.

D. 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.

E. 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.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 64.901(a) – Inaccurate Cost Study Adjustments – Assets and Expenses

CONDITION

AAD obtained and examined the Beneficiary's supporting documentation for 17 cost study adjustments (100 percent of the population) for its December 31, 2016 High Cost data filing to determine whether the Beneficiary had correctly calculated its cost study adjustments for High Cost program purposes. As summarized below, AAD determined that the Beneficiary made errors in the calculations used to allocate cost adjustments for certain asset (and the associated depreciation accounts) and expense accounts for its December 31, 2016 High Cost data filing:

- a) ***Inaccurate Allocations:*** AAD determined that the Beneficiary incorrectly calculated adjustments due to the following errors with its allocations:
 - i. The Beneficiary utilized outdated time studies from 2004 to derive the Customer Service and Corporate Operations (Accounting) allocators, and as a result, the allocations resulting from the time studies were not cost causative or relevant to the audit period.
 - ii. The Beneficiary did not provide documentation to support the allocation of the Land and Building values assigned to the regulated and non-regulated entities, which the Beneficiary used to derive the Land and Building allocation factors to allocate cost amongst the Beneficiary and its non-regulated affiliates.
 - iii. The Beneficiary utilized an inaccurate allocation factor to allocate cost for the technology center amongst the Beneficiary and its non-regulated affiliates. The Beneficiary did not include floor space in the technology center leased directly to a non-regulated third party, which also affected the Land and Building allocations.
 - iv. The Beneficiary did not account for nine months of non-usage of the owner's office, covering the period of April to December of 2016, which affected the Land and Building allocations.
 - v. The Beneficiary improperly assigned the following accounts as 100% regulated: General Purpose Computers (Account 2124), Accumulated Depreciation – General Purpose Computers (Account 3100-2124), and General Purpose Computer Expense (Account 6124). As it provides non-regulated services to its customers and non-regulated affiliates, the Beneficiary should have performed a cost allocation to remove the cost associated to provide the non-regulated services.
 - vi. The Beneficiary utilized its general allocator to derive other allocation factors and used these other allocation factors to generate the general allocator; as a result, the Beneficiary utilized circular referencing to arrive at its allocations.

- vii. The Beneficiary calculated deregulated costs for Cable and Wire Facilities (CWF) based on the 2015 Outside Plant Study instead of the most recent 2016 study.³
- b) **Improper recovery of rent revenue:**⁴ AAD determined that the Beneficiary improperly calculated adjustments due to the following errors with rent revenue recoveries:
 - i. The Beneficiary recovered \$16,301 in rent revenue for a fiber lease against General Support Expense (Account 6120), when it should have been recovered against Cable and Wire Facilities Expense (Account 6410). However, the Beneficiary also removed the leased fibers from the balances in its outside plant study, resulting in the revenue associated with the fiber lease to be double counted.
 - ii. The Beneficiary was owed rent from a third party for a land lease in the amount of \$38,000, however, the Beneficiary only received \$5,000 from the third party as of the end of the audit period. The Beneficiary improperly only recorded the initial \$5,000 received against Land and Building (Account 6121) rather than the \$38,000 it had earned in land lease revenue.

AAD summarizes the results of these errors in the table below:

| Account Description ⁵ | As Reported – Part 36 A | AAD Recalculated Balance B | Difference Overstated/ (Understated) A-B |
|---|-------------------------------|-------------------------------------|---|
| Plant Under Construction (Account 2003) | \$3,912 | \$3,598 | \$314 |
| Land & Support Assets (Account 2110) | \$5,137,325 | \$1,550,835 | \$3,586,490 |
| Cable and Wire Facilities (Account 2410) | \$11,198,861 | \$11,178,375 | \$20,487 |
| Accumulated Depreciation – Land & Support Assets (Account 3100 – 2110) | \$4,461,146 | \$1,312,399 | \$3,148,747 |
| Accumulated Depreciation – Cable and Wire Facilities (Account 3100 – 2410) | \$11,178,739 | \$11,121,056 | \$57,683 |
| Net Noncurrent Deferred Operating Income Taxes (Account 4340) | \$697,981 | \$657,805 | \$40,176 |

³ See 47 CFR 64.901(c) (providing, “A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services”).

⁴ As a result of the Beneficiary’s inability to support Land and Building values, AAD removed the regulated balance from the account. Had the Beneficiary been able to support the Land and Building values identified in Item a) ii (above), \$16,699 would have been removed from General support expense because of the improper recovery of rent revenue identified.

⁵ See 47 C.F.R. §§ 32.2003, 32.2110, 32.2410, 32.3100, 32.4340, 32.6120, 32.6410, 32.6530, 32.6561, 32.6610, 32.6620, 32.6720 and 32.6710 (2016). See also 2000 Biennial Regulatory Review-Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2, FCC 01-305, 67 FCC Rcd 5669, para. 41 (2002).

| | | | |
|--|--------------|--------------|-------------|
| General Support Expense (Account 6120) | \$1,203,670 | \$526,277 | \$677,393 |
| Network Operating Expense (Account 6530) | \$1,250,209 | \$1,246,181 | \$4,028 |
| Cable and Wire Facilities Expense (Account 6410) | \$1,033,991 | \$1,027,665 | \$6,326 |
| Depreciation Expense – Land & Support Assets (Account 6561 – 2210) | \$355,078 | \$192,531 | \$162,547 |
| Depreciation Expense - Cable and Wire Facilities (Account 6561 – 2410) | \$96,464 | \$95,839 | \$625 |
| Customer Services Marketing Expense (Account 6610) | \$227,363 | \$248,532 | (\$21,169) |
| Customer Operations Services Expense (Account 6620) | \$508,948 | \$551,119 | (\$42,171) |
| Executive Expense (Account 6710) ⁶ | \$924,994 | \$806,245 | (\$118,749) |
| General Admin Expense (Account 6720) | \$886,253 | \$944,253 | (\$58,000) |
| Total | \$39,164,934 | \$31,462,710 | \$7,522,727 |

Because the Beneficiary did not correctly calculate its cost study adjustments, AAD concludes that the balances reported for High Cost program purposes were inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure it reports the correct amount for High Cost program purposes. The Beneficiary informed AAD that it could not separate the costs for each building in its CPR due to the length of time that the buildings have been in place. In addition, the Beneficiary informed AAD that its cost consultant inadvertently did not update the calculations for the cost study but the cost consultant plans to add an additional layer of review for future studies to ensure changes are captured correctly from year to year.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 reported by the Beneficiary in its respective accounts on the HC Form. AAD summarized the results below:

| Support Type | Monetary Effect and Recommended Recovery |
|--------------|--|
| ICLS | \$158,274 |
| CAF BLS | \$0 |
| CAF ICC | \$0 |
| Total | \$158,274 |

RECOMMENDATION

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

⁶ Account 6711 is now included within 47 C.F.R. § 32.6720.

⁷ Beneficiary responses to audit exception summary, received May 26, 2021.

The Beneficiary must implement an adequate system to properly report the correct amounts for High Cost program purposes. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure it (1) retains documentation to support its allocation factors, (2) includes and utilizes the proper balances (beginning and/or ending account balances) when calculating costs study adjustments utilizing timely, current and cost-causative allocation factors 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

As it relates to the finding regarding the building allocations, Hart Telephone Company did not see any major changes to the square footage of the buildings to warrant an update of the land and building square footage used in the CAM. The buildings used in the CAM have not changed over the years and therefore believe the footages are correct. In addition, to validate this and at request of USAC, Hart Telephone provided updated square footage data. There was only a slight change to Technology Center building and a portion was allocated to non-regulated that was missed in the initial CAM. This area was very small and had minor impacts to the CAM results. During a busy time dealing with a pandemic, Hart Telephone had a person on their staff shift duties to measure the square footage of all spaces. This was provided to USAC for use in their analysis along with an updated CAM which included the land and building study updates. Therefore, we strongly disagree with the exclusion of all buildings in the CAM which effectively[sic] removes all building related investment and expenses and associate general support accounts. In addition a building CPR was provided to show the buildings existed[sic] and the total balances in the building CPR matched up to the audited financial statements. The buildings are common assets and based on FCC rules 64.901, all of this investment and support assets should not be excluded:

- (a) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy:
- (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.- (building study, which was completed, maybe this would require using updated labor distribution, which should be quantified to see the impact differences)
 - (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.
 - (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.

Hart Telephone's CAM is routinely updated each year. Hart's consultant, John Staurulakis, Inc. (JSI) has initiated a full in-depth review of the cost allocators. Hart has also completed an updated time study to update some of the allocators used in the CAM. Again, we reiterate the need by USAC to re-evaluate the removal of ALL land, building, and associated general support asset and expenses. This is completely inconsistent with other audits completed internally at USAC and using USAC's external auditors like KPMG. Hart provided the necessary data (updated floor maps, square footage details, building CPR's) to make an update to the allocations so to say in your comments that support could not be validated, and you will take exception to the remaining regulated amount is completely incorrect. This is an extreme position and is being inconsistently applied to Hart's allocations. Hart believes its land and building study did not materially change and while Hart cannot separate costs for each building in its CPR (due to the length of time buildings have been in place), the total cost of the building is verifiable and audited. The total building CPR matches back to the total account balance each year and is validated through their financial audit process.

AAD RESPONSE

The Beneficiary stated that it does not agree with this finding. The Beneficiary asserted that 1) it provided updated floor space studies to substantiate its square footage usage and allocation, 2) it provided CPR's for which the building values in total tied to what was utilized in the CAM, and 3) the total building CPR matches back to the total account balance each year and is validated through their financial audit process. The Beneficiary stated in its response that it would like for "USAC to re-evaluate the removal of ALL building and associated general support asset and expenses" since the Beneficiary asserted this is inconsistent with other audits. In addition, the Beneficiary stated that "Hart provided the necessary data (updated floor maps, square footage details, building CPR's) to make an update to the allocations."

AAD clarifies that it applied the 100% non-allowable percentage to the accounts to which the "Building Allocator" was applied, specifically accounts 2121, 2122 and 2123, as well as to the related reserve and expense accounts. During the audit, AAD obtained and examined the documentation provided by the Beneficiary to substantiate its cost allocation factors used to develop the CAM. AAD notes that the Beneficiary provided CPRs and updated building square footage usage reports. However, AAD determined that the documentation provided was insufficient because the CPR detail did not display the values of the individual buildings listed in the CAM. Therefore, AAD was unable to agree the building values to the CPRs. Because the individual buildings were used for different segments of the business, various building allocators were derived based on the stated individual building values to allocate costs between regulated and non-regulated values in the CAM. As the Beneficiary admitted in its response, it is not able to separate costs for each building in its CPR due the length of time the buildings have been in place. Without sufficient documentation to verify the individual building values, AAD concluded that the regulated cost reported for high cost program purposes, including the individual building cost and the allocated cost derived using building allocation factor for accounts 2121, 2122 and 2123, were not accurate.

The Beneficiary stated in its response that "the buildings used in the [CAM] have not changed over the years and therefore believe the footages are correct." The Beneficiary also stated that

“updates to the CAM are performed by JSI annually and the land and building study did not materially change.”

However, AAD does not agree with the Beneficiary’s assertions. AAD determined that the CAM allocation factors had not been updated on an annual basis. Specifically, AAD identified where the CAM had not been updated to reflect the portions of the buildings utilized for non-regulated purposes. In addition, AAD noted that the CAM was not updated to consider the fact that the former owner’s 908 square foot office, which was 17.6% of one of the beneficiary’s main buildings that housed the management offices located at the golf club, was no longer in use for nine months of the data period. Further, within the submitted CAM, JSI had not updated the time study allocation factors since 2004. Instead, the Beneficiary/JSI updated factors developed using the time study only after AAD requested that a more recent time study be performed. While, in its response, the Beneficiary identified the CAM and building study as documents to demonstrate how it complied with the assignment of cost based on 47 CFR § 64.901, AAD concludes, based on the information noted above, the both documents were insufficient to assess whether the costs were properly allocated.

In addition, the Beneficiary states that it disagrees with the finding because removing ALL building and associated general support asset and expenses is inconsistent with audit findings made by other, external firms. Beneficiary has provided no documentation to support its assertion. In absence of documentation to support the cost allocation as stated above, AAD applied the FCC Rules and removed costs that were not substantiated. AAD made determinations of findings based on the audit documentation provided by the Beneficiary and its sufficiency to achieve audit objectives. USAC AAD and external firms hired by AAD must audit in accordance with the FCC Rules. AAD may not disregard audit findings determined during the performance of an AAD audit because of the results of previous audits performed by outside parties.

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

Finding #2: 47 C.F.R. § 64.901(a), 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Improper Inclusion of Non-Regulated Amounts and Support Not Used for Intended Purpose of Federal Universal Support

CONDITION

AAD obtained and examined the Beneficiary’s general ledger for the twelve months ended December 31, 2016 and supporting documentation to determine whether the Beneficiary excluded non-regulated costs from the account balances reported for High Cost program purposes. AAD considered a non-statistical sample of 74 expense transactions totaling \$1,488,495, a non-statistical sample of 19 affiliate transactions totaling \$82,667, and documentation to support the Beneficiary’s cost study adjustments. In addition, AAD also examined the documentation 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. As summarized below, AAD

determined that the Beneficiary included non-regulated costs in its cost study balances reported for High Cost program purposes for 22 transactions:⁸

| Account | Disallowed Description | Number of Transactions | Non-Regulated Amount |
|--|--|------------------------|----------------------|
| Central Office Equipment (COE) – Switching Expense (Account 6212) | Customer Premise Equipment | 1 | \$12,741 |
| Central Office Equipment (COE) – Transmission Expense (Account 6232) | Customer Premise Equipment | 1 | \$2,670 |
| Network Operating Expense (Account 6532 and 6534) | Inside Wiring Tools/Meals/ Room Rental for Non-Reg. purposes | 2 | \$2,794 |
| Customer Service Marketing Expense (Account 6613) | Promotional Giveaways (Earbuds) | 1 | \$1,732 |
| Customer Operations Services Expense (Account 6623) | Lease expenses for services no longer received | 4 | \$255,512 |
| Executive Expense (Account 6711) ⁹ | Non-employee expenses ¹⁰ (vehicles, meals, golf, and medical expenses) and expenses for luxury vehicles ¹¹ | 5 | \$86,515 |
| Executive Expense (Account 6711) | Monthly salary continuation expenses for deceased owner | 2 | \$638,938 |
| Gen. Admin. Expense (Account 6728) ¹² | Organization membership dues, meals, retirement parties | 3 | \$25,915 |

⁸ See 47 C.F.R. §§ 32.2003, 32.2110, 32.2410, 32.3100, 32.4340, 32.6120, 32.6410, 32.6530, 32.6561, 32.6610, 32.6620, 32.6720 and 32.6710 (2016). See also FCC 01-305, 2000 Biennial Regulatory Review-Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2, FCC 01-305, 67 FCC Rcd 5669, para. 41 (2002).

⁹ FCC Rule 47 C.F.R. §§ 32.6711, 32.6721 and 32.6728 have been removed and all accounts are now included within Account 32.6720 – General and Administrative Expenses.

¹⁰ These non-employee expenses included monthly lease payments for vehicles in the amount of \$467 and \$1,877, respectively, food and golf membership in the amount of \$507, and personal medical expenses of \$2,885. AAD further determined the Beneficiary had an entire expense sub-account dedicated to this individual, with expenses for the year totaling \$29,280.

¹¹ Beyond the violations identified in these transactions, AAD noted several expenses that appear to be excessive in nature, including the owner's \$221,840 bonus January 2016, which was in addition to his \$96,000 monthly salary, as well as executive offices ranging from 400 to 900 square feet. In addition, three of the four disallowed vehicles leased from its affiliate were for luxury vehicles utilized by the owner and his family including a 2010 Land Rover Range Rover Supercharge (purchase price of \$93,894), a 2004 Mercedes Benz SL55 (purchase price of \$131,536), and a 2014 Mercedes Benz S550V (base price estimated value of \$96,000). AAD disallowed the vehicle lease transactions and removed them from the rate base for the audit period. As these expenses are recurring, AAD identifies there is a strong likelihood that these excessive expenses also occurred in years prior to the audit period.

¹² See *id.*

| | | | |
|--|---|-----------|--------------------|
| Distributed Expenses (Various Accounts) (Accounts 6121, 6124, 6212, 6421, 6423, 6512, 6532, 6533, 6534, 6535, 6612 ¹³ , 6613, 6623, 6711, 6721 and 6728) | Cable TV services and employee concession services for Cable TV | 3 | \$14,787 |
| Total | | 22 | \$1,041,604 |

Using data analytical tools, AAD also selected a non-statistical sample of 340 general ledger transactions totaling \$131,586 and for the twelve months ended December 31, 2016. The Beneficiary did not exclude 299 transactions totaling \$96,689 from various expense accounts that were related to items including but not limited to meals (\$5,465), travel (\$49,531), organization membership dues (\$16,689), sponsorship of community events (\$5,300), fees (\$285), retirement parties (\$2,161), and gifts to employees (*i.e.*, graduation gifts, etc.) (\$1,367) that were not necessary for the provision, maintenance, and upgrading of facilities.

AAD clarifies that while FCC 18-29 was released after the audit period, the relevant statute was effective before the audit period. Specifically, Congress stated that, “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.”¹⁴ The Beneficiary should have removed these unallowable transactions during its cost study process.

In the table below, AAD summarizes the Beneficiary’s overstated account balances that resulted from the inclusion of non-regulated costs reported for High Cost program filings:

| Account | As Reported – Part 64 (A) | Recalculated Balance (B) | Difference Overstated (A) - (B) |
|---|--|---|--|
| Plant Under Construction (Account 2003) ¹⁵ | \$3,912 | \$3,723 | \$189 |
| General Support Expense (6120) | \$1,203,670 | \$1,199,931 | \$3,739 |
| COE Switching Expense (Account 6210) | \$279,680 | \$265,303 | \$14,377 |
| COE Transmission Expense (Account 6230) | \$262,698 | \$257,997 | \$4,701 |
| Cable & Wire Facility Expense (Account 6410) | \$1,033,991 | \$1,024,593 | \$9,398 |
| Network Operating Expense (Account 6530) | \$1,250,209 | \$1,233,176 | \$17,033 |
| Customer Services Marketing Expense (Account 6610) | \$227,363 | \$221,280 | \$6,083 |
| Customer Operations Services Expense (Account 6620) | \$508,947 | \$384,888 | \$124,059 |

¹³ FCC Rule 47 C.F.R. § 32.6612 has been removed and the account is now included within Account 32.6611 – Product Management and Sales Expenses.

¹⁴ See *also* 47 C.F.R. § 54.7(a); 47 U.S.C. § 254(e).

¹⁵ See 47 C.F.R. § 32.2003.

| | | | |
|--|--------------------|--------------------|------------------|
| Executive Expense (Account 6710) | \$924,994 | \$370,297 | \$554,697 |
| General Administrative Expense (Account 6720) | \$886,253 | \$846,630 | \$39,623 |
| Nonoperating Income & Expense (Account 7300) ¹⁶ | \$5,835 | \$1,285 | \$4,550 |
| Total | \$6,587,552 | \$5,809,102 | \$778,450 |

Because the Beneficiary's reported balances included 299 unallowable transactions and several other non-regulated transactions, AAD concludes that the Beneficiary did not exclude non-regulated costs from the account balances reported for High Cost program purposes and 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 exclude non-regulated amounts from the amounts reported for High Cost program purposes. The Beneficiary informed AAD the expense account related to the non-employee was included in the 2016 cost study by accident but removed in future studies. In addition, the Beneficiary stated that most of the affiliate leases associated with non-regulated expenses are no longer in place.¹⁷

EFFECT

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

| Support Type | Monetary Effect and Recommended Recovery |
|--------------|--|
| ICLS | \$116,089 ¹⁸ |
| CAF BLS | \$0 |
| CAF ICC | \$0 |
| Total | \$116,089 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the amounts identified in the Effect section above. In addition, AAD recommends that USAC Management determine whether the identified excessive expenses, as well as other non-regulated expenses, may have also occurred in years prior to the current audit period and determine the whether additional recoveries are warranted.

¹⁶ See 47 C.F.R. § 32.7300.

¹⁷ Beneficiary response to exception summary, received May 26, 2021.

¹⁸ AAD notes the Monetary Effect and Recommended Recovery was calculated utilizing the revised allocation percentages identified in Finding #1. Had AAD calculated the Monetary Effect and Recommended Recovery utilizing the Beneficiary's original allocation percentages the Monetary Effect and Recommended Recovery would be \$130,530.

The Beneficiary must ensure it has an adequate system to exclude non-regulated costs from the account balances reported for High Cost Program purposes and ensure that support is not used for the provision, maintenance, and upgrading of facilities and services for which the support is intended. 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. 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

Hart disagrees with several of these excludable expenses. On the IP Testwork, USAC is removing all per diem employee travel expenses including meals. Per the FCC -18-29A1 Order, Page 13 of the Order states "As noted above, we acknowledge that meals provided during business-related travel may qualify as a reasonable per diem travel expense recoverable from high-cost support consistent with our interpretation of section 254(e). Hart disagrees that Items such as listed under codes N1, N2, N5, N7 on the IP Testwork should be removed. All of these expenses are related to the provision, maintenance and upgrade of facilities. Hart Tel. attends meetings/ conference to help them keep up with changing rules and to help them maintain their accounting systems, cybersecurity systems, etc. Without this information and training, Hart would not maintain and upgrade its network to be fully compliant and relies on its other technical training to run the enterprise. In addition, in our consultants experience, these types of expenses have not been excluded for other audits. Again, we believe there is inconsistency in application of the rules.

While Hart agrees that some of these expenses should be removed like Betty Barton's expenses and some of the scholarship type expenses that were addressed in the Public Notice, the majority of these expense do fall into the provision, maintenance and upgrade of our facilities to provide Hart's end user the best service possible. All of the membership, meetings/training and associate costs are related to the successful functioning of the company which is in turn related to how well the company can keep up its facilities. To say all of these expense are excludable indicates a misunderstanding of the rules. We believe these meetings and associated costs fall under FCC-18-29A1, expenses incurred to meet state, local, or federal regulatory requirements or obligations to provide supported services including preparing tariff and service cost filings and obtaining plant construction permits are allowable under section 254(e) to the extent that they are a precondition to providing supported services. Additionally, contracting expenses (excluding sales contracts) such as negotiating pole attachment rights-of-way and interconnection agreements that area precondition to providing supported service are recoverable from the high-cost program consistent with the Act."

In addition, our consultant has worked with other clients on almost 2 dozen audits and in no case have they seen the disallowing of business events that help support a company's ability to maintain and grow its network.

AAD RESPONSE

The Beneficiary stated in its response that it disagrees with the disallowance of several of these excludable expenses. The Beneficiary states that meals may be allowable for business related travel. AAD agrees with this statement, however, if the business related travel is not necessary for the provision, maintenance, and upgrade of facilities, AAD determined that the corresponding meals associated with the travel were also not necessary for the provision, maintenance, and upgrade of facilities. Thus, AAD evaluated the eligibility of travel related meal expenses by reviewing documentation provided by the Beneficiary to demonstrate whether the travel by the Beneficiary was necessary for the provision maintenance and upgrade of telecommunication facilities, and determined the travel related to the identified exceptions were not only for the provision, maintenance, and upgrade of facilities.

The Beneficiary states in its response that it does not agree with the N1, N2, N5, and N7 exceptions identified during AAD's testing of expenses not necessary for the provision, maintenance, and upgrading of facilities. For N1 exceptions, the conference or meeting was not necessary for the provision maintenance and upgrade of facilities. An example of these exceptions include meal expenses related to a Georgia Telecommunications Association annual meeting, in which the four day meeting included a large amount of extracurricular activities including a golf tournament as well as zip lining experiences. N2 exceptions, which related to membership dues, are explicitly prohibited from support recovery as stated in FCC 18-29 paragraph 28. While employees of the Beneficiary may be involved in local community organizations like the rotary club, membership dues, as well as the donations to the rotary foundation are not necessary for the provision maintenance or upgrade of telecommunication facilities. N5 exceptions identified during audit fieldwork related to food and beverage expenses. Of the transactions removed for food and beverage expenses, four of the six transactions totaling \$4,455 of the \$4,480 removed for food and were for non-travel related employee meals including \$1,281 in expenses for annual employee meeting and \$2,161 in expenses for an employee retirement luncheon. Finally, N7 exceptions identified during audit fieldwork were for remaining expenses not necessary for the provision, maintenance, and upgrade of facilities. An example of these expenses include a subscription to the local newspaper.

Further, the results of other audits does not give USAC authority to disregard findings in current audits. Therefore, for all exceptions noted herein, AAD's position on the Finding remains unchanged.

Finding #3: 47 C.F.R. § 36.2(c) – Improper Accounting of Leases

CONDITION

AAD obtained and examined documentation, including the Beneficiary's computer equipment and building lease documentation, to determine whether the Beneficiary, for High Cost program purposes, recorded its general support assets in the correct cost study accounts, including

computer equipment and buildings leased from its affiliates.¹⁹ The Beneficiary did not capitalize its computer equipment and building leases, as detailed below.

Computer Equipment Lease

Upon review of the computer equipment lease documentation, AAD determined that the annual lease payments of \$228,471 was substantial in amount and should have been capitalized pursuant to 47 C.F.R. § 36.2, instead of accounted for as an operating lease. The Beneficiary informed AAD that it leases the computer equipment for a period of five years before the affiliate replaces the equipment.²⁰ The majority of the computer equipment leased consisted of laptops and personal computers, which pursuant to federal standards have an estimated economic useful life of three years.²¹ Thus, the lease was substantially equal to the estimated useful life of the leased property. In addition, the lease agreement states that the Beneficiary must pay its affiliate “an amount equal to the total cost of the equipment in use by the Lessee multiplied by a factor of .09391.”²² By utilizing this factor, the Beneficiary’s payments for the leased computer equipment would exceed the fair value of the leased property within 11 months’ time, and represents more than four times the fair value of the leased property over the five-year lease period. Because the economic life of the lease was substantially equal to the estimated useful life of the property and the lease payments exceed 90% or more of the fair value of leased property, the Beneficiary should have capitalized the assets pursuant to 47 C.F.R. § 32.2681(a)(3) instead of accounting for the assets as an operating lease.²³

Building Lease

AAD examined documentation supporting the building leased by the Beneficiary from its affiliate. Pursuant to the FCC Rules governing affiliate transactions, affiliate transactions involving general asset transfers that are less than \$500,000 in annual value should be recorded at net book cost.²⁴ AAD reviewed the financial records of the affiliate and identified that the leased building had been fully depreciated in its affiliate’s books. With a net book cost of \$0, the Beneficiary should not have recorded rent expense for this asset. Further, in review of the lease terms, AAD noted the lease was for an indefinite period. The Beneficiary initiated the lease in 1993, thus, the lease totaled 23 years of use as of the audit period. In review of the State of Georgia’s approved depreciation rates, the

¹⁹ AAD utilized the monthly billing detail for the months of December 2015 and July 2016 to ensure it captured all applicable leased computer equipment for the analysis of all equipment for the entire 2016 calendar period. In addition, AAD performed an analysis of the leased building for the entire 2016 calendar period.

²⁰ Beneficiary’s response to 2015 Universal Access Fund (UAF) Audit findings dated June 23, 2015, provided by Michael Moore, JSI Cost Consultant via Box on February 27, 2020.

²¹ See Internal Revenue Service code for Property and equipment accounting at https://www.irs.gov/irm/part1/irm_01-035-006.

²² Lease agreement #5 provided by Michael Moore, JSI Cost Consultant via Kiteworks on Oct. 28, 2019.

²³ See 47 C.F.R. § 32.2681(a)(3)

²⁴ See 47 C.F.R. § 32.27(b)(3).

depreciation rate for buildings is 4.5%, which equates to a useful life of 22.22 years.²⁵ Pursuant to section 32.2681(a)(3) of the FCC Rules, if a lease term is substantially equal to the estimated useful life of the leased property, then the lease should be capitalized in the Lessee's books.²⁶ Therefore, AAD determined the Beneficiary should have capitalized the building lease pursuant to section 32.2681(a)(3) of the FCC Rules, instead of accounting for the asset as an operating lease.

Thus, the Beneficiary overstated its lease expenses and understated its assets and the associated accumulated depreciation as summarized in the table below:

| Part 64 Cost Study Accounts | Part 64 Cost Study As Reported (A) | Part 64 Cost Study AAD Revised (B) | Variance Overstated / (Understated) (A - B) |
|--|---|---|--|
| Land & Support Assets (Acct 2110) | \$5,137,325 | \$5,303,017 | (\$165,692) |
| Accumulated Depreciation (Acct 3100 -2110) | \$4,461,146 | \$4,610,304 | (\$149,158) |
| General Support Expense (Acct 6120) | \$1,203,670 | \$1,082,831 | \$120,839 |
| Depreciation Expense (Acct 6561) | \$355,078 | \$359,271 | (\$4,193) |
| Total | \$11,157,219 | \$11,355,423 | (\$194,011) |

When rented property transactions are either substantial in amount, substantially equal to the estimated useful life of the leased property, or the lease payments exceed 90% or more of the fair value of leased property, the Beneficiary must capitalize the lease and related expenses, and exclude the rent expenses from the telephone operations. Because the Beneficiary did not capitalize the leased assets, AAD concludes that the Beneficiary did not record lease asset and expense transactions in the proper amount and to the proper general ledger account and did not, for High Cost program purposes, accurately report the cost study balances.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly capitalize leased assets from its affiliate that are substantial in amount, substantially equal to the estimated useful life of the leased property or the lease payments equal or exceed 90% of the fair value of the leased property. The Beneficiary informed AAD that it developed its computer lease rates with the help of its financial auditors and believed the rates to be acceptable and reasonable.²⁷

²⁵ See Rules and Regulations of the State of Georgia. Rule 515-3-1-.10(b)(1)(II) *Accounting Requirements: Individual Account Rate Limits* at <http://rules.sos.state.ga.us/gac/515-3-1?urlRedirected=yes&data=admin&lookingfor=515-3-1>.

²⁶ 47 C.F.R. § 32.2681(a)(3).

²⁷ Beneficiary responses to the exception summary, received May 26, 2021.

EFFECT

AAD calculated the monetary effect for this finding by subtracting and adding the value of the overstatements and understatements as noted in the table above to the total amount reported by the Beneficiary in its High Cost program filings. AAD summarized the results below:

| Support Type | Monetary Effect and Recommended Recovery |
|--------------|--|
| ICLS | \$20,226 ²⁸ |
| CAF BLS | \$0 |
| CAF ICC | \$0 |
| Total | \$20,226 |

RECOMMENDATION

AAD recommends that 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 FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will properly record its assets that are leased, including transactions through its affiliates, in the proper amount and in the proper general account, including proper lease capitalization, and maintain adequate documentation to support the assets value that are submitted for High Cost program purposes, including an oversight process of third party consultants. 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

Hart Telephone worked with their auditor to come up with reasonable computer lease rates. These leases were reviewed by their GA UAF auditors each year and were found acceptable. As such, Hart Telephone followed this same methodology for inclusion in the Interstate cost study filings. In addition, even with reviews by NECA including a [SIC] in-depth Focus Review, the method of inclusion of the computer lease or the building lease was never an issue. While we do not agree with this conclusion, Hart Telephone no longer has the computer leases in place. These agreements were terminated.

²⁸ AAD notes the Monetary Effect and Recommended Recovery was calculated utilizing the revised allocation percentages identified in Finding #1. Had AAD calculated the Monetary Effect and Recommended Recovery utilizing the Beneficiary's original allocation percentages, the Monetary Effect and Recommended Recovery would be \$44,969.

AAD RESPONSE

The Beneficiary stated in its response that it disagrees with the AAD's conclusion. AAD's determination is based on applying the requirements for capitalized leases as set forth in FCC Rule 47 C.F.R. § 36.2(c):

"If substantial in amount, the following treatment is applied: (2) In the case of property rented from affiliates, the property and related expenses are included with, and the rent expenses are excluded from, the telephone operations of the company making the separation."

And

47 C.F.R. § 32.2681(3)-(4):

(3) The lease term is substantially (75% or more) equal to the estimated useful life of the leased property. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.

(4) At the inception of the lease, the present value of the minimum lease payments, excluding that portion of the payments representing executory costs to be paid by the lessor, including any profit thereon, equals or exceeds 90% or more of the fair value of the leased property. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.

Upon review of documentation received from the Beneficiary, which included lease agreements and lease payment calculations, AAD determined that both the computer equipment and building lease terms were substantially equal to or exceeded their useful lives of 3 years and 22.22 years, respectively. In addition, AAD determined that the total of the lease payments agreed upon by Hart Telephone and its affiliate for the computer equipment allowed for the affiliate to recover full value of their assets in the first 11 months of the 5 year term lease. At the end of the computer equipment lease, the affiliate will have recovered more than 5 times the values of its assets.

Because the lease terms were a substantial portion or exceeded the useful lives of the leased property and/or exceeded 90% or more of the fair value of leased property, AAD's position on the Finding remains unchanged.

Finding #4: 47 C.F.R. § 64.901 - Improper Allocation Methodology

CONDITION

AAD obtained and examined the Beneficiary's general ledger, as well as supporting documentation for the twelve months ended December 31, 2016, including a non-statistical sample of 74 expense transactions totaling \$1,488,495 and documentation to support the Beneficiary's cost study adjustments, to determine whether the Beneficiary's expenses were accurately reported for High Cost program purposes for the twelve months ended December 31, 2016. The Beneficiary's cost allocations factors were developed using non-cost-causative factors, resulting in inaccurate cost study allocation for its electricity expense.

For one expense transaction sampled, the Beneficiary allocated 35% of its electricity bill associated with the commercial office, which includes the Beneficiary's central office, to Power Expense (Account 6535).²⁹ AAD inquired with the Beneficiary to understand how the allocation was determined and the Beneficiary explained it did not have support for the percentages used, rather it estimated the central office used roughly 1/3 of the buildings power.³⁰ 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. As the Beneficiary's indirect cost allocation was estimated rather than allocated from cost causative factors, AAD determined this transaction, as well as the remaining associated monthly electric bills, were improperly allocated.

In the table below, AAD summarizes the net effect of the difference between the Beneficiary's allocation factors that were used for the Power Expense reported in its High Cost program filings and AAD's recalculated allocation factors using the square footage dedicated to the central office for the Beneficiary's commercial office:

| Account ³¹ | Beneficiary Allocation Factor | AAD Recalculated Factor Based on Net Plant |
|---|-------------------------------|--|
| Land and Building Expense (Account 6121) | 65% | 90.52% |
| Product Management and Sales Expense (Account 6531) | 35% | 9.48% |

| Account ³² | As Reported – Part 64 (A) | Recalculated Balance (B) | Difference Understated/ (Overstated) (B) - (A) |
|---------------------------------------|---------------------------|--------------------------|--|
| General Support Expense (Acct 6120) | \$1,203,670 | \$1,203,670 | \$0 ³³ |
| Network Operating Expense (Acct 6530) | \$1,250,209 | \$1,238,979 | (\$11,230) |
| Total | \$2,453,879 | \$2,442,649 | (\$11,230) |

²⁹ See 47 C.F.R. § 32.6535.

³⁰ Beneficiary's response to Audit Inquiries Record (AIR) #61.1, provided by Michael Moore, JSI cost consultant via Box on Feb. 26, 2020.

³¹ See 47 C.F.R. §§ 32.6531, 32.6121.

³² See 47 C.F.R. §§ 32.6530, 32.6120.

³³ Due to AAD's 100% removal of the balance for Account 6121 in Finding #1 deemed as non-regulated, there is no impact to General Support Expense related to this finding. Had AAD calculated the impact to General Support Expense using the Beneficiary's original allocation percentages, General Support Expense would have increased by \$9,783.

Because the Beneficiary used non-cost-causative factors to allocate indirect expenses in its High Cost program filings, AAD concludes that the Beneficiary's cost study balances reported for High Cost program purposes were not accurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that the factors used to allocate rate base accounts are based on cost causative factors. The Beneficiary informed AAD that it strives to ensure all invoices are booked correctly, however given the numerous invoices processed, small and infrequent errors may occur.³⁴

EFFECT

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

| Support Type | Monetary Effect and Recommended Recovery |
|--------------|--|
| ICLS | \$2,002 ³⁵ |
| CAF BLS | \$0 |
| CAF ICC | \$0 |
| Total | \$2,002 |

RECOMMENDATION

AAD recommends that 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 FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure that allocations are based on cost causative factors, accurately calculated and supported for High Cost program purposes. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/>.

BENEFICIARY RESPONSE

Hart Telephone agrees with this finding and will continue to work to ensure all invoices are booked correctly. Given the de-minimis nature of this finding and with Hart Tel booking so

³⁴ Beneficiary responses to audit results summary, received May 26, 2021.

³⁵ AAD notes the Monetary Effect and Recommended Recovery was calculated utilizing the revised allocation percentages identified in Finding #1. Had AAD calculated the Monetary Effect and Recommended Recovery utilizing the Beneficiary's original allocation percentages the Monetary Effect and Recommended Recovery would be \$278.

many invoices, Hart Telephone strives to do its best in ensuring accuracy and errors are usually infrequent and small in nature.

Finding #5: 47 C.F.R. § 32.2 (a), (b) - Misclassified Assets and Expenses

CONDITION

AAD obtained and examined the Beneficiary's general ledger, as well as supporting documentation for the twelve months ended December 31, 2016, including a non-statistical sample of 74 expense transactions totaling \$1,488,495 and documentation to support the Beneficiary's cost study adjustments, to determine whether the Beneficiary recorded its expenses to the proper general ledger account for High Cost program purposes. The Beneficiary did not properly classify two sampled transactions, as described below.

For one expense transaction sampled, the Beneficiary recorded an expense for the monthly service associated with a Calix Flow Analyzer in Circuit Equipment Expense (Account 6232).³⁶ However, as the Calix Flow Analyzer is primarily used for the control and administration of traffic flow, the Beneficiary should have appropriately accounted for this expense as Network Administration Expense (Account 6532).³⁷ Also, the Beneficiary recorded an expense for a three-year ArcGIS software license to Engineering Expense (Account 6535).³⁸ However, as this software license was for a period greater than one year, the software license should have been capitalized as an intangible asset in Intangibles (Account 2690).³⁹ As a result of the misclassified assets and expenses, the Beneficiary overstated or understated its account balances reported in its High Cost program filings as follows:

| Account | As Reported – Part 64 Cost Study (A) | Recalculated Balance (B) | Difference Overstated/ (Understated) (A) – (B) |
|--|---|--------------------------------|---|
| Intangibles (Acct 2690) | \$0 | \$9,779 | (\$9,779) |
| Accumulated Amortization - Intangibles (Acct 3500) | \$0 | \$1,463 | (\$1,463) |
| Central Office Transmission Expense (Acct 6230) | \$262,698 | \$255,558 | \$7,140 |
| Network Operating Expense (Acct 6530) | \$1,250,209 | \$1,246,469 | \$3,740 |
| Amortization Expense – Intangibles (Acct 6564) | \$0 | \$1,463 | (\$1,463) |
| Total | \$1,512,907 | \$1,514,732 | (\$362) |

³⁶ See 47 C.F.R. § 32.6232.

³⁷ See 47 C.F.R. § 32.6532.

³⁸ See 47 C.F.R. § 32.6535.

³⁹ See 47 C.F.R. § 32.2690.

Because the Beneficiary misclassified the transactions as stated above, AAD concludes that the Beneficiary did not record its 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 strives to ensure all invoices are booked correctly, however, given the numerous invoices processed, small and infrequent errors may occur.⁴⁰

EFFECT

AAD calculated the monetary effect for this finding by subtracting and adding the value of the overstatements and understatements as noted in the table above from the total amount reported by the Beneficiary in its High Cost program filings. AAD summarized the results below:

| Support Type | Monetary Effect and Recommended Recovery |
|--------------|--|
| ICLS | \$1,028 ⁴¹ |
| CAF BLS | \$0 |
| CAF ICC | \$0 |
| Total | \$1,028 |

RECOMMENDATION

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

The Beneficiary must implement an adequate system to record its expenses to the proper general ledger account for High Cost program purposes. In addition, the Beneficiary must develop and implement policies, procedures, and processes that describe how it will ensure the recording of transactions to the proper Part 32 accounts for High Cost program purposes. Further, 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

Hart Telephone agrees with this finding and will continue to work to ensure all invoices are booked correctly. Given the deminimis nature of this finding and with Hart Tel booking so

⁴⁰ Beneficiary responses to audit results summary, received May 26, 2021.

⁴¹ AAD notes the Monetary Effect and Recommended Recovery was calculated utilizing the revised allocation percentages identified in Finding #1. Had AAD calculated the Monetary Effect and Recommended Recovery utilizing the Beneficiary's original allocation percentages, the Monetary Effect and Recommended Recovery would be \$1,021.

many invoices, we strive to do our best in ensuring accuracy and errors are usually infrequent and small in nature.

Finding #6: 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 and the associated accumulated depreciation for High Cost program purposes. While the Beneficiary did calculate its depreciation expense using the average monthly asset balance, aside from minor rounding differences, it erred due to the following reasons:

- 1) The Beneficiary's system depreciated the Cable and Wire Facilities (CWF) asset up to average asset balance instead of total capitalized asset amount. The Beneficiary depreciated the remainder of the capitalized cost the following month to correct the depreciation expense and accumulated depreciation balances. This methodology only causes exceptions in the last month of the cost study period where the depreciation and accumulated depreciation balances are incorrect for assets that should have been fully depreciated.
- 2) The Beneficiary accounted for the retirement amount twice in the calculation of its average balance for CWF).
- 3) The Beneficiary reclassified a CWF asset and did not reclassify the associated accumulated depreciation. AAD manually adjusted the accumulated depreciation balance for July 2016 to avoid an over-depreciated balance in the recalculation of the expense.

AAD summarizes the differences between the recalculated twelve months of depreciation expense using the average of the beginning and ending balance of each month and the correct state approved depreciation rates and the reported amounts below:

| Account⁴² | Difference for the 12 months ended December 31, 2016 (Understated) |
|---|---|
| Accumulated Depreciation – CWF (Acct 3100-2410) | (\$7,320) |
| Depreciation Expense – CWF (Acct 6560-2410) | (\$7,320) |

Because the Beneficiary utilized incorrect asset balances, and an inadequate system, AAD concludes that the Beneficiary did not properly calculate depreciation expense and the associated accumulated depreciation for High Cost program purposes.

⁴² See 47 C.F.R. §§ 32.3100 (2016) and 32.6561 (2016).

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 of system programming and the incorrect calculation of correcting entries.⁴³

EFFECT

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

| Support Type | Monetary Effect |
|--------------|-------------------------|
| ICLS | (\$1,319) ⁴⁴ |
| CAF BLS | \$0 |
| CAF ICC | \$0 |
| Total | (\$1,319) |

RECOMMENDATION

The Beneficiary must implement an adequate system to properly calculate depreciation expense and accumulated depreciation reported for High Cost Program purposes. In addition, the Beneficiary must develop and implement policies, procedures, and processes that describe how it will ensure that the depreciation expense and associated accumulated depreciation balances reported in its High Cost filings are accurate, including system programming for asset balances and related depreciation calculation entries. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/>.

BENEFICIARY RESPONSE

Hart agrees with this finding and attempted to make corrections for depreciation during the year but accidentally did not adjust accumulated depreciation. These errors are generally caught during review before the next financial statement cycle.

⁴³ See email from Michael Moore, JSI Consulting, Inc., received Mar. 18, 2020 and Beneficiary responses to the Audit Inquiry Record (AIR) #33.3 received Jul. 24, 2020.

⁴⁴ AAD notes the Monetary Effect and Recommended Recovery was calculated utilizing the revised allocation percentages identified in Finding #1. Had AAD calculated the Monetary Effect and Recommended Recovery utilizing the Beneficiary's original allocation percentages, the Monetary Effect and Recommended Recovery would be \$1,327.

Finding #7: 47 C.F.R. § 54.320(b) – Lack of Documentation: Asset Categorization

CONDITION

AAD obtained and examined the Beneficiary’s continuing property records (CPR) and CWF category allocation to determine whether the Beneficiary properly recorded, categorized⁴⁵ and reported its assets for High Cost program purposes. The Beneficiary did not provide documentation to support its assets categorization for certain Central Office Equipment (COE) and CWF assets, as detailed below.

Central Office Equipment (COE)

While the totals of the CPR account details agreed to the general ledger balances in the Beneficiary’s Part 64 Cost Study, AAD identified that the Beneficiary’s Central Office Equipment (COE) CPR had assets categorized as “spares.” The Beneficiary must properly account for spares as inventory when not in use, however, the Beneficiary did not reclassify its COE spares as such when the equipment was not in service. AAD inquired about the equipment, and in response, the Beneficiary informed AAD that “the COE spares were fluid throughout the year and that [it] could not provide detailed documentation of when COE spares went into and out of service throughout the 2016 audit data period.”⁴⁶

Cable and Wire Facility (CWF)

Upon review of the CWF category allocation, AAD noted that the Beneficiary allocated asset costs associated with “Dark Fiber” to Category 1 based on the stated future use of a fiber to the home buildout (FTTH). In 47 C.F.R. § 51.319(a)(6), the FCC defines *Dark Fiber* as “fiber within an existing fiber optic cable that has not yet been activated through optronics to render it capable of carrying communications services.” In FCC 03-36,⁴⁷ the FCC explained, “[d]ark fiber exists in a carrier’s network as unused fiber available because that carrier has deployed fiber in the first instance for the express purpose of lighting certain strands of it to serve a particular customer location.” Per National Exchange Carrier Association (NECA) Reporting Guideline 4.23, Spare C&WF [CWF] Investment states that the “FCC rules also acknowledge that certain C&WF [CWF] investment that is “reserved” can be categorized based on analysis of company records. Further, the NECA Reporting Guideline explains, “[t]he regulated spare portion of any facility, including fiber, is generally categorized in the same manner as the in-use portion of the same section of cable.”⁴⁸ The Beneficiary did not provide documentation demonstrating that the installation of the dark fiber occurred prior to the year ended December 31, 2016 (audit period) and that the dark fiber existed within an existing fiber optic cable within the Beneficiary’s network. Thus, the Beneficiary’s categorization of its dark fiber assets as Category 1 was not substantiated.

⁴⁵ See 47 C.F.R. § 36.153(a)(1)(i).

⁴⁶ See Beneficiary responses to Audit Inquiries Record (AIR) #48.1; note AAD and Beneficiary also discussed the matter on Jul. 10, 2020.

⁴⁷ See FCC 03-36, 18 FCC Rcd 16978, para. 312.

⁴⁸ See NECA Reporting Guideline 4.23 “Spare C&WF Investment.”

AAD must conduct audits in accordance with GAGAS, which require AAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.⁴⁹ As the Beneficiary did not provide sufficient documentation to support the asset categorization, AAD reclassified all asset costs allocated to “COE Spares” and “Dark Fiber” to Account 2003 and removed all related expenses from the submitted High Cost program costs.

AAD summarized the resulting overstated or understated balances in the table below:

| Account ⁵⁰ | Part 64 Cost Study As Reported A | Part 64 Cost Study AAD Recalculated B | Difference Overstated / (Understated) A – B |
|---|--|---|--|
| Telecommunications Plant Under Construction (Account 2003) | \$4,758 | \$1,083,323 | \$(1,078,565) |
| COE Switching (Account 2210) | \$590,119 | \$549,289 | \$40,830 |
| COE Transmission (Account 2230) | \$6,124,616 | \$5,423,990 | \$700,626 |
| Accumulated Depreciation – COE Switching (Account 3100-2210) | \$332,068 | \$309,180 | \$22,888 |
| Accumulated Depreciation – COE Transmission (Account 3100-2230) | \$5,997,486 | \$5,296,860 | \$700,626 |
| COE Switching Expense (Account 6210) | \$279,680 | \$266,623 | \$13,057 |
| COE Transmission Expense (Account 6230) | \$262,698 | \$231,172 | \$31,526 |
| Depreciation Expense – COE Switching (Account 6561-2210) | \$52,884 | \$49,210 | \$3,674 |
| Depreciation Expense – COE Transmission (Account 6561-2230) | \$112,673 | \$102,270 | \$10,403 |
| CWF (Account 2410) | \$11,226,694 | \$10,689,473 | \$537,221 |
| Accumulated Depreciation – CWF (Account 3100-2410) | \$11,209,623 | \$10,672,493 | \$537,130 |
| CWF Expense (Account 6410) | \$1,033,991 | \$979,450 | \$54,541 |
| Depreciation Expense – CWF (Account 6561-2410) | \$96,464 | \$92,153 | \$4,311 |

Because the Beneficiary did not provide adequate documentation to substantiate the utilization of COE spares and categorization of dark fiber to Category 1, AAD concludes that the assets were not recorded nor reported properly in the Beneficiary’s filings for High Cost program purposes.

⁴⁹ See U.S. Government Accountability Office, Government Auditing Standards, GAO-18-568G, para. 8.90 (Rev. Jul. 2018) (“Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objectives and supporting their findings and conclusions.”).

⁵⁰ See 47 C.F.R. §§ 32.2003 (2016), 32.2210 (2016), 32.2230 (2016), 32.2410 (2016), 32.3100 (2016), 32.6210 (2016), 32.6230 (2016), 32.6410 (2016), and 32.6561 (2016).

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly maintain its CPRs to ensure that the Beneficiary recorded and reported accurate information for High Cost Program purposes. The Beneficiary informed AAD that details of the exact times of utilization for COE spares were not maintained. In addition, as it relates to documenting the dark fiber, the Beneficiary informed AAD that the outside plant assets have been in place for almost 30 years and Hart has gone through a couple [of] system changes in that time, so there are no detailed work orders that it can readily pull for each route section.⁵¹

EFFECT

AAD calculated the monetary effect for this finding by subtracting the recorded value of the assets, including the associated accounts, from the total amount reported by the Beneficiary in its respective accounts on the High Cost filing. AAD summarized the results below:

| Support Type | Monetary Effect |
|--------------|--------------------------------|
| ICLS | (\$16,716) |
| CAF BLS | \$0 |
| CAF ICC | \$0 |
| Total | (\$16,716)⁵² |

RECOMMENDATION

The Beneficiary must maintain detailed CPRs and asset categorization schedules that includes documenting assets by the proper category and maintaining documentation to demonstrate compliance with FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will update and maintain documentation for COE spares and asset categorization schedules that include the required elements and maintain adequate documentation for CPR balances and asset categorization 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

Hart Tel disagrees with this finding in regards to COE Spare inventory. As discussed during the audit, this equipment was in service throughout the year and is used as needed. It is just labled as "spare" because it can be used in any type of emergency situation to replace equipment that has failed or is not working. Having this dedicated equipment for this

⁵¹ Email from Bhavini Sokhey, JSI Cost Consultant, on Nov. 19, 2020.

⁵² AAD notes the Monetary Effect and Recommended Recovery was calculated utilizing the revised allocation percentages identified in Finding #1. Had AAD calculated the Monetary Effect and Recommended Recovery utilizing the Beneficiary's original allocation percentages, the Monetary Effect and Recommended Recovery would be (\$18,863).

purpose allows Hart Tel to ensure continuity of service to its customers and views all of this equipment as in use.

In terms of the CWF Dark Fiber finding, Hart is reviewing all its cable and wire routes and include support they deem appropriate to include these fibers as loop plant. In cases where it appears they could be used for more than loop plant activities, Hart will allocate the fiber based on usage of other fibers on each specific route. Hart disagrees with moving these fibers to inventory as this is not common industry practice. In addition, Hart's Cable and Wire study went through a NECA Focus Review and NECA was able to accept documentation that was provided. Hart's plant prior to 2016 has been in place for many years. Hart was able to provide a CWF CPR that tied out to its general ledger. Hart, like most other ILEC's cannot separately identify exactly which fibers are being allocated for future use. This is handled via the study based on current usage of fibers. As Hart continues to install fiber to the home using its upgraded mapping technology, new fiber will be better identified and captured.

AAD RESPONSE

The Beneficiary stated in its response that it disagrees with this finding in regards to COE Spare inventory and CWF Dark Fiber where AAD has reclassified both of the identified balances to the inventory account. As it relates to the COE spares, the Beneficiary did not maintain documentation to track when spares were put into and taken out of use. Without such documentation, AAD was not able to determine when asset values should have been accounted for as an inventory item versus a depreciable asset.

As it relates to the CWF Dark Fiber, the Beneficiary did not provide documentation to prove when the dark fiber was originally installed or whether the dark fiber was an extension of CWF previously installed. In addition, neither the Beneficiary nor NECA provided NECA's Focus review. The Beneficiary provided a copy of a letter to NECA, which it stated its intention of future use. The Beneficiary stated that NECA has accepted Beneficiary's statement. NECA provided to USAC AAD a statement of its guidance to the Beneficiary. AAD would have considered this guidance had Beneficiary been able to provide sufficient documentation to support its asset installation and categorization.

For both issues, AAD did not question the existence of the assets, but the lack of documentation did not allow AAD to determine how the assets should have been properly accounted for and categorized throughout the data period. Thus, AAD took a conservative approach by reclassifying the assets as inventory instead of removing the assets from the rate base altogether.

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

CRITERIA

| Finding | Criteria | Description |
|----------|---------------------------|--|
| #1, 2, 4 | 47 C.F.R. § 64.901 (2016) | <p>Allocation of costs.</p> <p>(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.</p> <p>(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.</p> <p>(1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service.</p> <p>(2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.</p> <p>(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:</p> <p>(i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.</p> <p>(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.</p> <p>(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.</p> |

| Finding | Criteria | Description |
|----------|----------------------------|--|
| | | (c) A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services. |
| #1, 2, 7 | 47 C.F.R. § 32.2003 (2016) | <p>Telecommunications plant under construction.</p> <p>(a) This account shall include the original cost of construction projects (note also § 32.2000(c)) of this part and the cost of software development projects that are not yet ready for their intended use.</p> <p>(b) There may be charged directly to the appropriate plant accounts the cost of any construction project which is estimated to be completed and ready for service within two months from the date on which the project was begun. There may also be charged directly to the plant accounts the cost of any construction project for which the gross additions to plant are estimated to amount to less than \$100,000.</p> <p>(c) If a construction project has been suspended for six months or more, the cost of the project included in this account may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and reports those amounts in reports filed with the Commission pursuant to §§ 43.21(e)(1) and 43.21(e)(2) of this chapter. If a project is abandoned, the cost included in this account shall be charged to Account 7300, Nonoperating income and expense.</p> <p>(d) When any telecommunications plant, the cost of which has been included in this account, is completed ready for service, the cost thereof shall be credited to this account and charged to the appropriate telecommunications plant or other accounts.</p> |
| #1 | 47 C.F.R. § 32.2110 (2016) | <p>Land and support assets.</p> <p>This account shall be used by companies to record the original cost of land and support assets of the type and character detailed in Accounts 2111 through 2124.</p> |
| #1 | 47 C.F.R. § 32.2124 (2016) | <p>General purpose computers.</p> <p>(a) This account shall include the original cost of computers and peripheral devices which are designed to perform general administrative information processing activities.</p> <p>(b) Administrative information processing includes but is not limited to activities such as the preparation of financial, statistical, or other business analytical reports; preparation of payroll, customer bills, and cash management reports, and other records and reports not specifically designed for testing, diagnosis, maintenance or control of the telecommunications network facilities.</p> <p>(c) [Reserved]</p> |

| Finding | Criteria | Description |
|-------------|----------------------------|--|
| | | (d) This account does not include the cost of computers and their associated peripheral devices associated with switching, network signaling, network operations, or other specific telecommunications plant. Such computers and peripherals shall be classified to the appropriate switching, network signaling, network expense, or other plant account. |
| #1, 4, 6, 7 | 47 C.F.R. § 32.3100 (2016) | <p>Accumulated depreciation.</p> <p>(a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service.</p> <p>(b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.)</p> <p>(c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered.</p> <p>(d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses.</p> |
| #1 | 47 C.F.R. § 32.4340 (2016) | <p>Net noncurrent deferred operating income taxes.</p> <p>(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.</p> <p>(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.</p> <p>(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</p> |

| Finding | Criteria | Description |
|-------------|----------------------------|--|
| | | <p>tax shall be reclassified from this account to Account 4100, Net Current Deferred Operating Income Taxes.</p> <p>(d) The classification of deferred income taxes as current or noncurrent shall follow the classification of the asset or liability 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.</p> <p>(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.</p> |
| #1, 2, 4 | 47 C.F.R. § 32.6120 (2016) | <p>General Support expenses. Companies shall use this account for expenses of the type and character detailed in Accounts 6121 through 6124.</p> |
| #1, 2 | 47 C.F.R. § 32.6124 (2016) | <p>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.”</p> |
| #1, 2, 5, 7 | 47 C.F.R. § 32.6410 (2016) | <p>Cable and wire facilities expenses. Companies shall use this account for expenses of the type and character detailed in Accounts 6411 through 6441.</p> |
| #1, 2, 4, 5 | 47 C.F.R. § 32.6530 (2016) | <p>Network operations expense. Companies shall use this account for expenses of the type and character detailed in Accounts 6531 through 6535.</p> |
| #1, 5, 6, 7 | 47 C.F.R. § 32.6561 (2016) | <p>Depreciation expense – telecommunications plant in service. This account shall include the depreciation expense of capitalized costs in Accounts 2112 through 2441, inclusive.</p> |
| #1, 2 | 47 C.F.R. § 32.6610 (2016) | <p>Marketing. Companies shall use this account for expenses of the type and character detailed in Accounts 6611 through 6613.</p> |
| #1, 2 | 47 C.F.R. § 32.6620 (2016) | <p>Services. Companies shall use this account for expenses of the type and character detailed in Accounts 6621 through 6623.</p> |
| #1, 2 | 47 C.F.R. § 32.6710 (2003) | <p>Executive and planning. This account number shall be used by Class A telephone companies to summarize for reporting purposes the contents of Accounts 6711 and 6712. Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6711 and 6712.</p> |
| #1, 2 | 47 C.F.R. § 32.6720 | <p>General and administrative.</p> |

| Finding | Criteria | Description |
|---------|----------|--|
| | (2016) | <p>This account shall include costs incurred in the provision of general and administrative services as follows:</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(d) Maintaining relations with government, regulators, other companies and the general public. This includes:</p> <p>(1) Reviewing existing or pending legislation (see also Account 7300, Nonoperating income and expense, for lobbying expenses);</p> <p>(2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits;</p> <p>(3) Performing public relations and non-product-related corporate image advertising activities;</p> <p>(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</p> <p>(5) Administering investor relations.</p> <p>(e) Performing personnel administration activities. This includes:</p> |

| Finding | Criteria | Description |
|---------|----------|--|
| | | <p>(1) Equal Employment Opportunity and Affirmative Action Programs;</p> <p>(2) Employee data for forecasting, planning and reporting;</p> <p>(3) General employment services;</p> <p>(4) Occupational medical services;</p> <p>(5) Job analysis and salary programs;</p> <p>(6) Labor relations activities;</p> <p>(7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs;</p> <p>(8) Personnel policy development;</p> <p>(9) Employee communications;</p> <p>(10) Benefit administration;</p> <p>(11) Employee activity programs;</p> <p>(12) Employee safety programs; and</p> <p>(13) Nontechnical training course development and presentation.</p> <p>(f) Planning and maintaining application systems and databases for general purpose computers.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> |

| Finding | Criteria | Description |
|----------|--|--|
| | | (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. |
| #1, 2, 5 | FCC 01-305: 2000 Biennial Regulatory Review- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2, 67 FCC Rcd 5669, para. 41 (2002) | <p>41. As a result, Accounts 6611 and 6612 will be consolidated into Account 6611, Product management and sales; Accounts 6621 through 6623 will be consolidated into Account 6620, Services, with subaccounts for wholesale and retail; Accounts 6710 through 6728 will be consolidated into Account 6720, General and administrative. Accounts 6613, Product advertising and Account 6790, Provision for uncollectible notes receivable will remain disaggregated.</p> <p>...</p> <p>219. We also tentatively conclude that other changes to Part 36 are required as a result of the elimination of Accounts 2215, 3500, 3600, 5000, 5080, 5084, and 6710 from both Class A and Class B accounting.</p> |
| #2 | 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. |
| #2 | FCC 15-133: FCC Reminds ETCs of High-Cost Support Requirements, WC Docket No. 10-90, Public Notice, FCC 30 FCC Rcd 11821, 11822 (2015) | <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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; |

| Finding | Criteria | Description |
|---------|--|---|
| | | <ul style="list-style-type: none"> • 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” <p>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.</p> |
| #2 | FCC 18-29: <i>Connect America Fund, et al.</i> , 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) | <p>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.</p> <p>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 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.</p> <p>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.</p> |

| Finding | Criteria | Description |
|---------|----------|--|
| | | <p>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 high cost 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.</p> <p>31. Charitable donations and scholarships are expenses unrelated to operations that may not be recovered from high-cost support.⁸⁷ 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</p> <p>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</p> |

| Finding | Criteria | Description |
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| | | 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 policy ⁹⁴ 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. |
| #2, 4 | 47 C.F.R. § 32.6121 (2016) | <p>Land and building expense.</p> <p>(a) This account shall include expenses associated with land and buildings (excluding amortization of leasehold improvements). This account shall also include janitorial service, cleaning supplies, water, sewage, fuel and guard service, and electrical power.</p> <p>(b) The cost of electrical power used to operate the telecommunications network shall be charged to Account 6531, Power Expense, and the cost of separately metered electricity used for operating specific types of equipment, such as computers, shall be charged to the expense account appropriate for such use.</p> |
| #2 | 47 C.F.R. § 32.6212 (2016) | <p>Digital electronic switching expense.</p> <p>(a) This account shall include expenses associated with digital electronic switching. Digital electronic switching expenses shall be maintained in the following subaccounts: 6212.1 Circuit, 6212.2 Packet.</p> <p>(b) This subaccount 6212.1 Circuit shall include expenses associated with digital electronic switching equipment used to provide circuit switching.</p> <p>(c) This subaccount 6212.2 Packet shall include expenses associated with digital electronic switching equipment used to provide packet switching.</p> |
| #2, 5 | 47 C.F.R. § 32.6232 (2016) | <p>Circuit equipment expense.</p> <p>(a) This account shall include expenses associated with circuit equipment. Circuit equipment expenses shall be maintained in the following subaccounts: 6232.1 Electronic, 6232.2 Optical.</p> <p>(b) This subaccount 6232.1 Electronic shall include expenses associated with electronic circuit equipment.</p> <p>(c) This subaccount 6232.2 Optical shall include expenses associated with optical circuit equipment.</p> |
| #2 | 47 C.F.R. § 32.6421 | Aerial cable expense. |

| Finding | Criteria | Description |
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| | (2016) | a) This account shall include expenses associated with aerial cable. b) Subsidiary record categories shall be maintained as provided in § 32.2421(a) of subpart C. |
| #2 | 47 C.F.R. § 32.6423 (2016) | Buried cable expense. (a) This account shall include expenses associated with buried cable. (b) Subsidiary record categories shall be maintained as provided in §32.2423(a) of subpart C.” |
| #2 | 47 C.F.R. § 32.6512 (2016) | Provisioning expense. (a) This account shall include costs incurred in provisioning material and supplies, including office supplies. This includes receiving and stocking, filling requisitions from stock, monitoring and replenishing stock levels, delivery of material, storage, loading or unloading and administering the reuse or refurbishment of material. Also included are adjustments resulting from the periodic inventory of material and supplies. (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. |
| #2, 4 | 47 C.F.R. § 32.6531 (2016) | Power expense. This account shall include the cost of electrical power used to operate the telecommunications network. |
| #2, 5 | 47 C.F.R. § 32.6532 (2016) | Network administrative expense. This account shall include costs incurred in network administration. This includes such activities as controlling traffic flow, administering traffic measuring and monitoring devices, assigning equipment and load balancing, collecting and summarizing traffic data, administering trunking, and assigning interoffice facilities and circuit layout work. |
| #2 | 47 C.F.R. § 32.6533 (2016) | Testing expense. This account shall include costs incurred in testing telecommunications facilities from a testing facility (test desk or other testing system) to determine the condition of plant on either a routine basis or prior to assignment of the facilities; receiving, recording and analyzing trouble reports; testing to determine the nature and location of reported trouble condition; and dispatching repair persons or otherwise initiating corrective action. (Note also §32.5999(b)(3) of this subpart.) |
| #2 | 47 C.F.R. § 32.6534 (2016) | 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.)” |

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| #2, 4, 5 | 47 C.F.R. § 32.6535 (2016) | <p>Engineering expense.</p> <p>(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.</p> <p>(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.)”</p> |
| #2 | 47 C.F.R. § 32.6613 (2016) | <p>Product advertising.</p> <p>This account shall include costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services. This excludes nonproduct-related advertising, such as corporate image, stock and bond issue and employment advertisements, which shall be included in the appropriate functional accounts.</p> |
| #2 | 47 C.F.R. § 32.6623 (2016) | <p>Customer services.</p> <p>(a) This account shall include costs incurred in establishing and servicing customer accounts. This includes:</p> <ul style="list-style-type: none"> (1) Initiating customer service orders and records; (2) Maintaining and billing customer accounts; (3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills; (4) Collecting and reporting pay station receipts; and (5) Instructing customers in the use of products and services. <p>(b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by part 43 of this Commission's rules and regulations.</p> |
| #2, 5 | 47 C.F.R. § 32.6230 (2016) | <p>Central office transmission expense.</p> <p>Companies shall use this account for expenses of the type and character detailed in Accounts 6231 and 6232.</p> |
| #2, 7 | 47 C.F.R. § 32.6210 (2016) | <p>Central office switching expenses.</p> <p>Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6211 through 6212.</p> |

| Finding | Criteria | Description |
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| #2 | 47 U.S.C. § 254 (e) (2016) | 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. |
| #2 | 47 C.F.R. § 32.7300 (2016) | <p>Nonoperating income and expense.</p> <p>This account shall be used to record the results of transactions, events and circumstances affecting the company during a period and which are not operational in nature. This account shall include such items as nonoperating taxes, dividend income and interest income. Whenever practicable, the inflows and outflows associated with a transaction or event shall be matched and the result shown as a net gain or loss. This account shall include the following:</p> <p>(a) Dividends on investments in common and preferred stock, which is the property of the company, whether such stock is owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled.</p> <p>(b) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1410, Other noncurrent assets, as a reduction of the carrying value of the investments.</p> <p>(c) Interest on securities, including notes and other evidences of indebtedness, which are the property of the company, whether such securities are owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled. It shall also include interest on cash bank balances, certificates of deposits, open accounts, and other analogous items.</p> <p>(d) For each month the applicable amount requisite to extinguish, during the interval between the date of acquisition and date of maturity, the difference between the purchase price and the par value of securities owned or held in sinking or other funds, the income from which is includable in this account. Amounts thus credited or charged shall be concurrently included in the accounts in which the securities are carried.</p> <p>(e) Amounts charged to the telecommunications plant under construction account related to allowance for funds used during construction. (See § 32.2000(c)(2)(x)).</p> <p>(f) Gains or losses resulting from:</p> <ul style="list-style-type: none"> (1) The disposition of land or artworks; (2) The disposition of plant with traffic; (3) The disposition of nonoperating telecommunications plant not previously used in the provision of telecommunications services. <p>(g) All other items of income and gains or losses from activities not specifically provided for elsewhere, including representative items such as:</p> <ul style="list-style-type: none"> (1) Fees collected in connection with the exchange of coupon bonds for registered bonds; |

| Finding | Criteria | Description |
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| | | <p>(2) Gains or losses realized on the sale of temporary cash investments or marketable equity securities;</p> <p>(3) Net unrealized losses on investments in current marketable equity securities;</p> <p>(4) Write-downs or write-offs of the book costs of investment in equity securities due to permanent impairment;</p> <p>(5) Gains or losses of nonoperating nature arising from foreign currency exchange or translation;</p> <p>(6) Gains or losses from the extinguishment of debt made to satisfy sinking fund requirements;</p> <p>(7) Amortization of goodwill;</p> <p>(8) Company's share of the earnings or losses of affiliated companies accounted for on the equity method; and</p> <p>(9) The net balance of the revenue from and the expenses (including depreciation, amortization and insurance) of property, plant, and equipment, the cost of which is includable in Account 2006, Nonoperating plant.</p> <p>(h) Costs that are typically given special regulatory scrutiny for ratemaking purposes. Unless specific justification to the contrary is given, such costs are presumed to be excluded from the costs of service in setting rates.</p> <p>(1) Lobbying includes expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances, or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises, or for the purpose of influencing the decisions of public officials. This also includes advertising, gifts, honoraria, and political contributions. This does not include such expenditures which are directly related to communications with and appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations;</p> <p>(2) Contributions for charitable, social or community welfare purposes;</p> <p>(3) Membership fees and dues in social, service and recreational or athletic clubs and organizations;</p> <p>(4) Penalties and fines paid on account of violations of statutes. This account shall also include penalties and fines paid on account of violations of U.S. antitrust statutes, including judgements and payments in settlement of civil and criminal suits alleging such violations; and</p> <p>(5) Abandoned construction projects.</p> <p>(i) Cash discounts on bills for material purchased shall not be included in this account.</p> |
| #3 | 47 C.F.R. § 36.2(c) (2016) | Property rented to affiliates, if not substantial in amount, is included as used property of the owning company with the associated revenues and expenses treated consistently: Also such property rented from affiliates is not included with the used property of the |

| Finding | Criteria | Description |
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| | | <p>company making the separations; the rent paid is included in its expenses. If substantial in amount, the following treatment is applied:</p> <p>(1) In the case of property rented to affiliates, the property and related expenses and rent revenues are excluded from the telephone operations of the owning company, and</p> <p>(2) In the case of property rented from affiliates, the property and related expenses are included with, and the rent expenses are excluded from, the telephone operations of the company making the separation.</p> |
| #3 | 47 C.F.R. § 32.27 (2016) | <p>Transactions with affiliates.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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 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.</p> <p>(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</p> |

| Finding | Criteria | Description |
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| | | <p>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.</p> <p>(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.</p> <p>(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.</p> <p>(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 Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.</p> <p>(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</p> |

| Finding | Criteria | Description |
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| | | <p>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.</p> <p>(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.</p> <p>(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.</p> <p>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.</p> |
| #3 | 47 C.F.R. § 32.2681(a)(3)(2016) | The lease term is substantially (75% or more) equal to the estimated useful life of the leased property. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease. |
| #5 | 47 C.F.R. § 32.2(a)(b) (2016) | <p>Basis of accounts.</p> <p>(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.</p> |

| Finding | Criteria | Description |
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| | | (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. |
| #5 | 47 C.F.R. § 32.2690 (2016) | <p>Intangibles.</p> <p>(a) This account shall include the cost of organizing and incorporating the company, the original cost of government franchises, the original cost of patent rights, and other intangible property having a life of more than one year and used in connection with the company's telecommunications operations.</p> <p>(b)[Reserved]</p> <p>(c) The cost of other intangible assets, not including software, having a life of one year or less shall be charged directly to Account 6564, Amortization expense - intangible. Such intangibles acquired at small cost may also be charged to Account 6564, irrespective of their term of life. The cost of software having a life of one year or less shall be charged directly to the applicable expense account with which the software is associated.</p> <p>(d) The amortization associated with the costs recorded in the Intangibles account will be credited directly to this asset account, leaving a balance representing the unamortized cost.</p> <p>(e) This account shall not include any discounts on securities issued, nor shall it include costs incident to negotiating loans, selling bonds or other evidences of debt, or expenses in connection with the authorization, issuance, sale or resale of capital stock.</p> <p>(f) When charges are made to this account for expenses incurred in mergers, consolidations, or reorganizations, amounts previously included in this account on the books of the various companies concerned shall not be carried over.</p> <p>(g) Franchise taxes payable annually or more frequently shall be charged to Account 7240, Operating other taxes.</p> <p>(h) This account shall not include the cost of plant, material and supplies, or equipment furnished to municipalities or other</p> |

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| | | <p>governmental authorities when given other than as initial consideration for franchises or similar rights. (Note also Account 6720, General & administrative).</p> <p>(i) This account shall not include the original cost of easements, rights of way, and similar rights in land having a term of more than one year. Such amounts shall be recorded in Account 2111, Land, or in the appropriate outside plant account (see Accounts 2411 through 2441), or in the appropriate central office account (see Accounts 2211 through 2232).</p> |
| #5 | 47 C.F.R. § 32.6564 (2016) | <p>Amortization expense – intangible.</p> <p>This account shall include the amortization of costs included in Account 2690, Intangibles.</p> |
| #6 | 47 C.F.R. § 32.2000(g)(2) (2016) | <p>(g) Depreciation accounting</p> <p>(2) Depreciation charges.</p> <p>(i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges.</p> <p>(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.</p> <p>(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.</p> <p>(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.”</p> |
| #7 | 47 C.F.R. § 54.320(b) (2014) | <p>(b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was</p> |

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| | | 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. |
| #7 | 47 C.F.R. § 36.153(a)(1)(i)(2016) | <p>(i) There are two basic methods for assigning the cost of cable to the various categories. Both of them are on the basis of conductor cross section. The methods are as follows:</p> <p>(A) By section of cable, uniform as to makeup and relative use by categories. From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved, for each category. The corresponding percentages of use, or reservation, are applied to the cost of the section of cable, i.e., sheath meters times unit cost per meter, to obtain the cost assignable to each category.</p> <p>(B) By using equivalent pair kilometers, i.e., pair kilometers expressed in terms of equivalent gauge. From an analysis of cable engineering and assignment records, determine the equivalent pair kilometers in use for each category by type of facility, e.g., quadded, paired. The equivalent pair kilometers are then divided by a cable fill factor to obtain the equivalent pair kilometers in plant. The total equivalent pair kilometers in plant assigned to each category is summarized by type of facility, e.g., quadded and paired, and priced at appropriate average unit costs per equivalent pair kilometer in plant. If desired, this study may be made in terms of circuit kilometers rather than physical pair kilometers, with average cost and fill data consistent with the basis of the facilities kilometer count.</p> |
| #7 | FCC 03-36: <i>Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carrier</i> , 18 FCC Rcd 16978 (2003). | Dark fiber exists in a carrier's network as unused fiber available because that carrier has deployed fiber in the first instance for the express purpose of lighting certain strands of it to serve a particular customer location." |
| #7 | 47 C.F.R. § 51.319(a)(6) (2016) | <p>Dark fiber loops.</p> <p>An incumbent LEC is not required to provide requesting telecommunications carriers with access to a dark fiber loop on an unbundled basis. Dark fiber is fiber within an existing fiber optic cable that has not yet been activated through optronics to render it capable of carrying communications services.</p> |
| #7 | NECA Reporting Guideline 4.23 "Spare C&WF Investment" | FCC rules also acknowledge that certain C&WF investment that is "reserved" can be categorized based on analysis of company records. To the extent that supportable documentation consistent with the FCC's rules (e.g., cable engineering and assignment records) identifying the facilities "kept or set apart for a specific use" is |

| Finding | Criteria | Description |
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| | | <p>provided, companies have the ability to separately assign the cost of reserved cable to the various C&WF categories within the boundaries of the FCC's rule. NECA will require companies to provide support to quantify the investment subject to being categorized based on the "reserved" used, and sufficient documentation to delineate the "specific use" of the reserved plant.</p> <p>...</p> <p>The regulated spare portion of any facility, including fiber, is generally categorized in the same manner as the in-use portion of the same section of cable. If the spare facility is part of the an existing "in use" cable facility, the spare capacity would be categorized in the same proportion of "in use" categorization (or directly assigned if the entire facility is assignable to one category.)</p> |
| #7 | 47 C.F.R. § 32.2210 (2016) | <p>Central office - switching.</p> <p>This account shall be used by companies to record the original cost of switching assets of the type and character detailed in Accounts 2211 through 2212.</p> |
| #7 | 47 C.F.R. § 32.2230 (2016) | <p>Central office - transmission.</p> <p>This account shall be used by companies to record the original cost of radio systems and circuit equipment of the type and character detailed in Accounts 2231 and 2232.</p> |
| #7 | 47 C.F.R. § 32.2410 (2016) | <p>Cable and wire facilities.</p> <p>This account shall be used by companies to record the original cost of cable and wire facilities of the type and character detailed in Accounts 2411 through 2441.</p> |

This concludes the report.

Summary of Lifeline Support Mechanism Beneficiary Audit Reports Released: October 2021

| Entity Name | Number of Findings | Significant Findings | Amount of Support | Monetary Effect | USAC Management Recovery Action* | Entity Disagreement |
|---|--------------------|---|-------------------|-----------------|----------------------------------|---------------------|
| América Móvil (Puerto Rico Telephone Company, Inc.) Attachment A | 3 | <ul style="list-style-type: none"> No significant findings. | \$7,551,051 | \$12,774 | \$0 | Y |
| Global Connection Inc. of America Attachment B | 3 | <ul style="list-style-type: none"> No significant findings. | \$6,085,609 | \$38,573 | \$4,599 | Y |
| Great Plains Communications Inc. Attachment C | 2 | <ul style="list-style-type: none"> <u>Lack of Documentation.</u> Subscriber Certification, Recertification and Eligibility Documentation. The Beneficiary did not provide all the requested documentation. | \$31,883 | \$9,531 | \$9,407 | N |
| North Dakota Telephone Company Attachment D | 1 | <ul style="list-style-type: none"> No significant findings. | \$58,028 | \$1,081 | \$1,081 | N |

| Entity Name | Number of Findings | Significant Findings | Amount of Support | Monetary Effect | USAC Management Recovery Action* | Entity Disagreement |
|--|--------------------|--|---------------------|-----------------|----------------------------------|---------------------|
| Sandhill Telephone Cooperative, Inc. Attachment E | 2 | <ul style="list-style-type: none"> No significant findings. | \$38,871 | \$5,707 | \$3,931 | Y |
| Vermont National Telephone Company Inc. Attachment F | 2 | <ul style="list-style-type: none"> No significant findings. | \$59,673 | \$787 | \$694 | N |
| Total | 13 | | \$13,825,115 | \$68,453 | \$19,712 | |

*In some cases, the USAC Management Recovery Action is less than the Monetary Effect to prevent double-recovery for the same subscriber identified in multiple findings. In the case of América Móvil (Attachment A), USAC did not seek recovery due to the unprecedented damage caused to the provider's headquarters offices by Hurricane Maria and the resulting impact on the provider's ability to provide requested documentation. In the case of Global Connection Inc. of America, the provider submitted revised Forms 497 after the beginning of the audit to reimburse the Universal Service Fund for a large portion of the recommended recovery amount, resulting in a recovery of \$4,599 of the remaining recommended recovery amount.

Attachment A

LI2019SR006

Available For Public Use

América Móvil (Puerto Rico Telephone Company, Inc.)

Limited Scope Audit on Compliance with the Federal Universal Service
Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2019SR006



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EXECUTIVE SUMMARY

October 7, 2021

Ms. Inabel Gonzalez
Puerto Rico Telephone Company, Inc.
390 A Street Mario Julia Industrial Park
San Juan, PR 00920-2016

Dear Ms. Gonzalez,

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

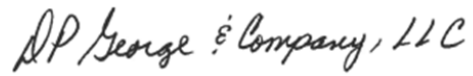
DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings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

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

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

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

Sincerely,

A handwritten signature in cursive script that reads "DP George & Company, LLC".

DP George & Company, LLC
Alexandria, Virginia

cc: Teleshia Delmar, USAC Vice President, Audit and Assurance Division
Radha Sekar, USAC Chief Executive Officer
Pamela Hughet, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

| Audit Results | Monetary Effect | Extrapolated Value (\$) |
|--|-----------------|-------------------------|
| Finding #1: 47 C.F.R. §54.417(a) – Lack of Documentation: Eligibility Documentation. The Holding Company did not provide documentation to demonstrate eligibility for new applicants. | \$5,217 | \$1,693,067 |
| Finding #2: 47 C.F.R. §54.417(a) – Lack of Documentation: One-Per-Household Documentation. The Holding Company did not provide documentation to demonstrate one per household certification for subscribers identified at the same address. | \$4,597 | \$38,268 |
| Finding #3: 47 C.F.R. §54.417(a) – Lack of Documentation: Transfer Documentation. The Holding Company did not provide documentation to demonstrate the subscriber was transferred in accordance with the Rules. | \$2,960 | \$136,599 |
| Total | \$12,774 | \$1,867,934 |

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results. However, due to the unprecedented damage caused to the Holding Company's headquarters offices due to Hurricane Maria, USAC will not seek recovery of the Lifeline Program support.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The Holding Company claimed 816,330 subscribers and \$7,551,050 in support during the calendar year 2017 period covered by our audit. The following chart details the subscriber claims and support received amounts by Study Area Code (SAC).

| SAC Number | Territory | Subscribers Claimed | Amount of Support |
|--------------|-----------|---------------------|--------------------|
| 633200 | PR | 52,408 | \$484,776 |
| 633201 | PR | 236,976 | \$2,192,028 |
| 639006 | PR | 526,946 | \$4,874,247 |
| Total | | 816,330 | \$7,551,051 |

Notes:

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

BACKGROUND

The Holding Company operates as an incumbent eligible telecommunications carrier (ETC) for SACs 633200 and 633201, and operates as a competitive ETC for SAC 639006, in the territory identified in the Scope table above.

PROCEDURES

DPG performed the following procedures:

A. FCC Form 497

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

B. Program Eligibility Documentation

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to verify program eligibility. DPG obtained and tested eligibility documentation for a sample of 271 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to comply with the Independent Economic Household (IEH) requirements. DPG obtained and tested documentation for a sample of 239 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. NLAD/State Database Validation

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

E. Transferred Subscribers

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

F. Deceased Subscribers

DPG obtained the Holding Company's subscriber listings and worked with USAC to identify currently deceased subscribers. DPG selected a sample of 56 subscribers who were deceased and were claimed after their date of death. DPG obtained and tested certification, recertification, and usage documentation for these subscribers to determine whether the Holding Company complied with the Rules while continuing to claim the subscriber.

G. Duplicate Subscribers

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.417(a) – Lack of Documentation: Eligibility Documentation

CONDITION

DPG requested eligibility documentation for a statistically valid sample of 271 subscribers.¹ The Holding Company did not provide the requested documentation for 78 of the 271 sampled subscribers. Without eligibility documentation for these subscribers, DPG cannot conclude that the subscribers were eligible to receive the Lifeline program support claimed by the Holding Company on the 2017 Forms 497.²

DPG determined that 60 of the subscribers were claimed under SAC 639006, 16 subscribers were claimed under SAC 633201, and 2 subscribers were claimed under SAC 633200.

CAUSE

The Holding Company did not have adequate document or data retention procedures to ensure the proper retention of documentation demonstrating that subscribers completed required certifications and presented required eligibility documentation. The Holding Company indicated that the missing documentation represents documents and/or data that was damaged or destroyed by the effects of Hurricane Maria.

EFFECT

| Support Type | Monetary Effect |
|-----------------|-----------------|
| Lifeline (2017) | \$5,217 |

DPG calculated the 2017 monetary effect by first determining the number of instances (months) in 2017 the Holding Company claimed the 78 subscribers. DPG identified a total of 564 such instances. DPG multiplied the 564 instances by the support amount requested on the applicable 2017 Form 497 (\$9.25) and rounded to the nearest whole dollar.

EXTRAPOLATION OF IMPROPERLY CLAIMED REIMBURSEMENT

As summarized in the chart below, the sample findings were extrapolated to the population of 87,953 subscribers claimed in 2017 who completed a new application after February 17, 2016 to develop an estimated number of subscribers with missing documentation:

| Lower Bound with 90% Confidence | Point Estimate with 90% Confidence | Upper Bound with 90% Confidence |
|---------------------------------|------------------------------------|---------------------------------|
| 21,336 subscribers | 25,315 subscribers | 29,294 subscribers |

Given the average Monetary Effect of \$66.88 per subscriber (\$5,217/78 subscribers) and the Point Estimate above, the Extrapolated Value was calculated as \$1,693,067.

¹ See 47 C.F.R. §§ 54.417(a), 404(b)(11) (2016).

² See 47 C.F.R. §§ 54.410(b)(1)(i), (ii); (c)(1)(i), (ii) (2016).

RECOMMENDATION

DPG recommends that the Holding Company implement an adequate process to ensure that it maintains documentation in compliance with the Rules.

HOLDING COMPANY RESPONSE

PRTC strongly disagrees with DPG's finding that "the Holding Company did not have adequate document or data retention procedures" in place to ensure the proper retention of documentation demonstrating that subscribers completed the required certifications and provided the required eligibility documentation. PRTC maintains a practice manual with the company's internal procedures to comply with the Lifeline program requirements, including the record keeping requirements. In this case, the Lifeline documents were securely stored on the fourth floor of a 10-story concrete building at the company's headquarters in Guaynabo, Puerto Rico.

Unfortunately, on September 20, 2017, Hurricane Maria barreled directly into Puerto Rico. Bearing winds over 150 mph and dumping several feet of rain, Hurricane Maria wrought unprecedented destruction, tearing roofs off buildings, leveling homes, flooding communities, and causing over \$91 billion in losses and taking more than 3,000 lives. In the words of FCC Chairman Ajit Pai, "The devastation wrought by Hurricane Maria has been unimaginable." See FCC News Release, Chairman Pai Meets with Officials in Puerto Rico (Nov. 7, 2017).

Hurricane Maria caused one of the sides of the 10-story building to collapse, causing significant damage to every floor, including the fourth floor where the Lifeline documentation was stored. The torrential rain and winds destroyed many of the Lifeline documents closest to the wall that collapsed. PRTC did everything it could to salvage as many documents as possible. However, no amount of document retention procedures could have adequately foreseen and forestall the destruction caused by Hurricane Maria. But for the destruction caused by this natural disaster to PRTC's headquarters, the company would have been able to provide the Lifeline documentation for 100% of the Lifeline customers in the sample.

Under the extraordinary circumstances mentioned above, USAC should not penalize PRTC to the tune of \$1,693,067 simply because the company had the misfortune of having its offices where it stored its Lifeline documentation severely damaged by a natural disaster.

DPG RESPONSE

DPG acknowledges in the Cause section above that Hurricane Maria resulted in damaged data and/or documentation related to the audit. We maintain that procedures at the time were not adequate to protect against the known risk of a hurricane. As an example, the use of digital copies stored remotely is a procedure that could likely have avoided the loss of documentation if in place at the time. We also clarify that as discussed during our exit conference, the amount used as the basis for the recovery of any funds is the \$5,217 Monetary Effect amount and not the Extrapolated Value of \$1,693,067. We maintain our recommendation that the Holding Company establish a stronger document retention process.

Finding #2: 47 C.F.R. § 54.417(a) – Lack of Documentation: One-Per-Household Documentation**CONDITION**

DPG requested One-Per-Household (OPH) documentation for a statistically valid sample of 239 subscribers.³ The Holding Company did not provide the requested documentation for 80 of the 239 sampled subscribers. Without OPH documentation for these subscribers, DPG cannot conclude that the subscribers were eligible to receive Lifeline program support.⁴

DPG determined that 78 of the subscribers were claimed under SAC 639006, 1 subscriber was claimed under SAC 633201, and 1 subscriber was claimed under SAC 633200.

CAUSE

The Holding Company did not have adequate documentation or data retention procedures to ensure the proper retention of documentation to demonstrate that subscribers made the required OPH certifications. The Holding Company indicated that the missing documentation represents documents and/or data that was damaged or destroyed by the effects of Hurricane Maria.

EFFECT

| Support Type | Monetary Effect |
|-----------------|-----------------|
| Lifeline (2017) | \$4,597 |

DPG calculated the 2017 monetary effect by first determining the number of instances (months) in 2017 the Holding Company claimed the 80 subscribers. DPG identified a total of 497 such instances. DPG multiplied the 497 instances by the support amount requested on the applicable 2017 Form 497 (\$9.25) and rounded to the nearest whole dollar.

EXTRAPOLATION OF IMPROPERLY CLAIMED REIMBURSEMENT

As summarized in the chart below, the sample findings were extrapolated to the population of 1,991 subscribers identified at an OPH address during 2017 to develop an estimated number of subscribers with missing documentation:

| Lower Bound with 90% Confidence | Point Estimate with 90% Confidence | Upper Bound with 90% Confidence |
|---------------------------------|------------------------------------|---------------------------------|
| 573 subscribers | 666 subscribers | 760 subscribers |

Given the average Monetary Effect of \$57.46 per subscriber (\$4,597/80 subscribers) and the Point Estimate above, the extrapolated monetary impact was calculated as \$38,268.

³ See 47 C.F.R. § 54.417(a) (2016).

⁴ See 47 C.F.R. §§ 54.400(h), 404(b)(3), 409(c), 410(g) (2016). See also Lifeline Reform Order, at paragraph 78 (2012).

RECOMMENDATION

DPG recommends that the Holding Company implement an adequate process to ensure that it maintains documentation in compliance with the Rules.

HOLDING COMPANY RESPONSE

PRTC strongly disagrees with DPG's finding that "the Holding Company did not have adequate document or data retention procedures" in place to ensure the proper retention of documentation demonstrating that subscribers completed the required certifications and provided the required eligibility documentation. PRTC maintains a practice manual with the company's internal procedures to comply with the Lifeline program requirements, including the record keeping requirements. In this case, the Lifeline documents were securely stored on the fourth floor of a 10-story concrete building at the company's headquarters in Guaynabo, Puerto Rico.

Unfortunately, on September 20, 2017, Hurricane Maria barreled directly into Puerto Rico. Bearing winds over 150 mph and dumping several feet of rain, Hurricane Maria wrought unprecedented destruction, tearing roofs off buildings, leveling homes, flooding communities, and causing over \$91 billion in losses and taking more than 3,000 lives. In the words of FCC Chairman Ajit Pai, "The devastation wrought by Hurricane Maria has been unimaginable." See FCC News Release, Chairman Pai Meets with Officials in Puerto Rico (Nov. 7, 2017).

Hurricane Maria caused one of the sides of the 10-story building to collapse, causing significant damage to every floor, including the fourth floor where the Lifeline documentation was stored. The torrential rain and winds destroyed many of the Lifeline documents closest to the wall that collapsed. PRTC did everything it could to salvage as many documents as possible. However, no amount of document retention procedures could have adequately foreseen and forestall the destruction caused by Hurricane Maria. But for the destruction caused by this natural disaster to PRTC's headquarters, the company would have been able to provide the Lifeline documentation for 100% of the Lifeline customers in the sample.

Under the extraordinary circumstances mentioned above, USAC should not penalize PRTC to the tune of \$38,268 simply because the company had the misfortune of having its offices where it stored its Lifeline documentation severely damaged by a natural disaster.

DPG RESPONSE

DPG acknowledges in the Cause section above that Hurricane Maria resulted in damaged data and/or documentation related to the audit. We maintain that procedures at the time were not adequate to protect against the known risk of a hurricane. As an example, the use of digital copies stored remotely is a procedure that could likely have avoided the loss of documentation if in place at the time. We also clarify that as discussed during our exit conference, the amount used as the basis for the recovery of any funds is the \$4,597 Monetary Effect amount and not the Extrapolated Value of \$38,268. We maintain our recommendation that the Holding Company establish a stronger document retention process.

Finding #3: 47 C.F.R. § 54.417(a) – Lack of Documentation: Transfer Documentation**CONDITION**

DPG requested application forms for a statistically valid sample of 143 subscribers who transferred to the Holding Company during the audit period.⁵ The Holding Company did not provide the requested application forms for 48 of the 143 sampled subscribers. Without the requested documentation for these subscribers, DPG cannot conclude that the subscribers consented to receiving service from the Holding Company.⁶

DPG determined that 40 of the subscribers were claimed under SAC 639006 and the remaining 8 subscribers were claimed under SAC 633201.

CAUSE

The Holding Company did not have adequate document or data retention procedures to ensure proper retention of documentation demonstrating that subscribers completed an application form consenting to receive service from the Holding Company. The Holding Company indicated that the missing documentation represents documents and/or data that was damaged or destroyed by the effects of Hurricane Maria.

EFFECT

| Support Type | Monetary Effect |
|-----------------|-----------------|
| Lifeline (2017) | \$2,960 |

DPG calculated the 2017 monetary effect by first determining the number of instances (months) in 2017 the Holding Company claimed the 48 subscribers. DPG identified a total of 320 such instances. DPG multiplied the 320 instances by the support amount requested on the applicable 2017 Form 497 (\$9.25) and rounded to the nearest whole dollar.

EXTRAPOLATION OF IMPROPERLY CLAIMED REIMBURSEMENT

As summarized in the chart below, the sample findings were extrapolated to the population of 6,600 subscribers identified as transferred-in during 2017 to develop an estimated number of subscribers with missing documentation:

| Lower Bound with 90% Confidence | Point Estimate with 90% Confidence | Upper Bound with 90% Confidence |
|---------------------------------|------------------------------------|---------------------------------|
| 1,787 subscribers | 2,215 subscribers | 2,644 subscribers |

Given the average Monetary Effect of \$61.67 per subscriber (\$2,960/48 subscribers) and the Point Estimate above, the extrapolated monetary impact was calculated as \$136,599.

⁵ See 47 C.F.R. §§ 54.417(a), 404(b)(11) (2016).

⁶ See 47 C.F.R. §§ 54.410(b)(1)(i), (ii); (c)(1)(i), (ii) (2016).

RECOMMENDATION

DPG recommends that the Holding Company implement an adequate process to ensure that it maintains documentation in compliance with the Rules.

HOLDING COMPANY RESPONSE

PRTC strongly disagrees with DPG's finding that "the Holding Company did not have adequate document or data retention procedures" in place to ensure the proper retention of documentation demonstrating that subscribers completed the required certifications and provided the required eligibility documentation. PRTC maintains a practice manual with the company's internal procedures to comply with the Lifeline program requirements, including the record keeping requirements. In this case, the Lifeline documents were securely stored on the fourth floor of a 10-story concrete building at the company's headquarters in Guaynabo, Puerto Rico.

Unfortunately, on September 20, 2017, Hurricane Maria barreled directly into Puerto Rico. Bearing winds over 150 mph and dumping several feet of rain, Hurricane Maria wrought unprecedented destruction, tearing roofs off buildings, leveling homes, flooding communities, and causing over \$91 billion in losses and taking more than 3,000 lives. In the words of FCC Chairman Ajit Pai, "The devastation wrought by Hurricane Maria has been unimaginable." See FCC News Release, Chairman Pai Meets with Officials in Puerto Rico (Nov. 7, 2017).

Hurricane Maria caused one of the sides of the 10-story building to collapse, causing significant damage to every floor, including the fourth floor where the Lifeline documentation was stored. The torrential rain and winds destroyed many of the Lifeline documents closest to the wall that collapsed. PRTC did everything it could to salvage as many documents as possible. However, no amount of document retention procedures could have adequately foreseen and forestall the destruction caused by Hurricane Maria. But for the destruction caused by this natural disaster to PRTC's headquarters, the company would have been able to provide the Lifeline documentation for 100% of the Lifeline customers in the sample.

Under the extraordinary circumstances mentioned above, USAC should not penalize PRTC to the tune of \$136,599 simply because the company had the misfortune of having its offices where it stored its Lifeline documentation severely damaged by a natural disaster.

DPG RESPONSE

DPG acknowledges in the Cause section above that Hurricane Maria resulted in damaged data and/or documentation related to the audit. We maintain that procedures at the time were not adequate to protect against the known risk of a hurricane. As an example, the use of digital copies stored remotely is a procedure that could likely have avoided the loss of documentation if in place at the time. We also clarify that as discussed during our exit conference, the amount used as the basis for the recovery of any funds is the \$2,960 Monetary Effect amount and not the Extrapolated Value of \$136,599. We maintain our recommendation that the Holding Company establish a stronger document retention process.

CRITERIA

| Finding | Criteria | Description |
|------------|--|--|
| #1, #2, #3 | 47 C.F.R. § 54.417(a) (2016) | "Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in ... [47 C.F.R. §] 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years." |
| #1, #3 | 47 C.F.R. § 54.404(b)(11) (2016) | "All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or investigations or to the extent required by NLAD processes, which require, <i>inter alia</i> , verification of eligibility, identity, address, and age." |
| #1, #3 | 47 C.F.R. § 54.410(b)(1)(i), (ii) (2016) | " <i>Initial income-based eligibility determination.</i> (1) Except where the National Verifier, state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline using the income-based eligibility criteria provided for in § 54.409(a)(1) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section.... (ii) Must securely retain copies of documentation demonstrating a prospective subscriber's income-based eligibility for Lifeline consistent with §54.417..." |
| #1, #3 | 47 C.F.R. § 54.410(c)(1)(i), (ii) (2016) | " <i>Initial program-based eligibility determination.</i> (1) Except in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in [47 C.F.R.] § 54.409(a)(2) or (b), an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section.... (ii) Must securely retain copies of the documentation demonstrating a subscriber's program-based eligibility for Lifeline, consistent with §54.417..." |
| #2 | 47 C.F.R. § 54.400(h) (2016) | "A 'household' is any individual or group of individuals who are living together at the same address as one economic unit. A household may include related and unrelated persons. An 'economic unit' consists of all adult individuals contributing to and sharing in the income and expenses of a household. An adult is any person eighteen years or older. If an adult has no or minimal income, and lives with someone who provides financial support to him/her, both people shall be considered part of the same household. Children under the age of |

| Finding | Criteria | Description |
|---------|---|--|
| | | eighteen living with their parents or guardians are considered to be part of the same household as their parents or guardians.” |
| #2 | 47 C.F.R. § 54.404(b)(3) (2016) | “If the [National Lifeline Accountability] Database indicates that another individual at the prospective subscriber’s residential address is currently receiving a Lifeline service, the eligible telecommunications carrier must not seek and will not receive Lifeline reimbursement for providing service to that prospective subscriber, unless the prospective subscriber has certified, pursuant to [47 C.F.R.] § 54.410(d) that to the best of his or her knowledge, no one in his or her household is already receiving a Lifeline service.” |
| #2 | 47 C.F.R. § 54.409(c) (2016) | “In addition to meeting the qualifications provided in paragraph (a) or (b) of this section, in order to constitute a qualifying low-income consumer, a consumer must not already be receiving a Lifeline service, and there must not be anyone else in the subscriber’s household subscribed to a Lifeline service.” |
| #2 | 47 C.F.R. § 54.410(g) (2016) | “(g) <i>One-Per-Household Worksheet</i> . The prospective subscriber will complete a form certifying compliance with the one-per-household rule upon initial enrollment. Such form will provide an explanation of the one-per-household rule; include a check box that the applicant can mark to indicate that he or she lives at an address occupied by multiple households; a space for the applicant to certify that he or she shares an address with other adults who do not contribute income to the applicant’s household and share in the household’s expenses or benefit from the applicant’s income; and the penalty for consumer’s failure to make the required one-per-household certification, <i>i.e.</i> de-enrollment. At re-certification, if there are changes to the subscriber’s household that would prevent the subscriber from accurately certifying to § 54.410(d)(3)(vi), then the subscriber must complete a new One-Per-Household Worksheet. If a Federal One Per Household Form is available, entities enrolling subscribers must use such form.” |
| #2 | <i>Lifeline and Link Up Reform and Modernization, Lifeline and Link Up, Federal-State Joint Board on Universal Service, Advancing Broadband Availability Through Digital Literacy Training</i> , WC Docket No. 11-42 <i>et. al.</i> , Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6691, para. 78 (2012) (<i>Lifeline Reform Order</i>) | “As explained below in the database section, upon receiving an application for Lifeline support, all ETCs must check the duplicates database to determine whether an individual at the applicant’s residential address is currently receiving Lifeline-supported service. The ETC must also search its own internal records to ensure that it does not already provide Lifeline-supported service to someone at that residential address. If nobody at the residential address is currently receiving Lifeline-supported service, the ETC may initiate Lifeline service after determining that the household is otherwise eligible to receive Lifeline and obtaining all required certifications from the household. If the ETC determines that an individual at the applicant’s residential address is currently receiving Lifeline-supported service, the ETC must take an additional step to ensure that the applicant and the current subscriber are part of different households. To enable applicants to make this demonstration, the ETC must require applicants to complete and submit to the ETC a written document, to be developed by USAC as discussed below, containing the following: (1) an explanation of the Commission’s one-per-household rule; (2) a check box that an applicant can mark to indicate that he or she lives at an address occupied by multiple households; (3) a space for the applicant to certify that he or she shares an address with other adults who do not contribute income |

| Finding | Criteria | Description |
|---------|----------|--|
| | | to the applicant's household and share in the household's expenses or benefit from the applicant's income, pursuant to the definition we adopt here today; and (4) the penalty for a consumer's failure to make the required one-per-household certification (i.e., de-enrollment). All ETCs must collect the completed document upon initial program enrollment from those consumers who apply for Lifeline using a residential address that the ETC determines is already receiving Lifeline-supported service." |

Attachment B

LI2018SR003

Available For Public Use



Global Connection Inc. of America

Limited Scope Audit on Compliance with the Federal Universal Service
Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2018SR003

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EXECUTIVE SUMMARY

September 27, 2021

Mr. Eric Schimpf
Global Connection Inc. of America
5555 Oakbrook Pkwy, Suite 620
Norcross, GA 30093-2253

Dear Mr. Schimpf,

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

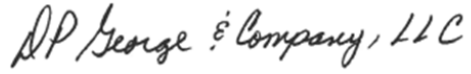
DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable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

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

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

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

Sincerely,

A handwritten signature in cursive script that reads "DP George & Company, LLC".

DP George & Company, LLC
Alexandria, Virginia

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

AUDIT RESULTS AND RECOVERY ACTION

| Audit Results | Monetary Effect & Recommended Recovery | Extrapolated Value (\$) |
|---|--|-------------------------|
| Finding #1: 47 C.F.R. § 54.407(a) – FCC Form 497 and State Database Variance. The Holding Company claimed subscribers on the audit period FCC Forms 497 who were not active in the applicable state database. | \$34,457 | \$34,457 |
| Finding #2: 47 C.F.R. § 54.404(b) – FCC Form 497 and NLAD Variance. The Holding Company claimed subscribers on the audit period FCC Forms 497 who were not active in NLAD for the applicable month. | \$2,784 | \$2,784 |
| Finding #3: 47 C.F.R. § 54.417(a) – Lack of Documentation: One-Per-Household Documentation. The Holding Company did not provide documentation to demonstrate one-per household certification for subscribers identified at the same address. | \$1,332 | \$19,260 |
| Total | \$38,573 | \$56,501 |

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results. The Beneficiary submitted revised Forms 497 after the beginning of the audit to reimburse the Universal Service Fund for monetary findings totaling \$33,975 identified in Findings 1 and 2. Therefore, USAC will seek recovery of \$4,599 in Lifeline Program support. USAC management will issue a separate memorandum to the Beneficiary to address the audit results.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The Holding Company claimed 657,895 subscribers and \$6,085,609 in support during the calendar year 2017 period covered by our audit. The following chart details the subscriber claims and support received amount by Study Area Code (SAC).

| SAC Number | State | Subscribers Claimed | Amount of Support |
|------------|-------|---------------------|-------------------|
| 639013 | PR | 212,029 | \$1,961,270 |
| 549026 | CA | 164,070 | \$1,517,650 |
| 449073 | TX | 56,154 | \$519,428 |
| 459016 | AZ | 43,466 | \$402,064 |
| 189015 | MD | 23,593 | \$218,237 |
| 229022 | GA | 18,232 | \$168,650 |
| 179018 | PA | 17,419 | \$161,128 |
| 589013 | RI | 17,408 | \$161,026 |
| 269041 | KY | 10,588 | \$97,943 |
| 309016 | OH | 10,195 | \$94,304 |

| SAC Number | State | Subscribers Claimed | Amount of Support |
|--------------|-------|---------------------|--------------------|
| 289035 | MS | 9,470 | \$87,598 |
| 469026 | CO | 9,191 | \$85,021 |
| 429018 | MO | 8,089 | \$74,828 |
| 339036 | WI | 7,162 | \$66,251 |
| 229016 | GA | 6,329 | \$58,545 |
| 359137 | IA | 5,678 | \$52,524 |
| 279039 | LA | 5,559 | \$51,422 |
| 259028 | AL | 4,497 | \$41,599 |
| 379025 | NE | 3,997 | \$36,974 |
| 319030 | MI | 3,801 | \$35,162 |
| 249032 | SC | 3,481 | \$32,200 |
| 409023 | AR | 3,077 | \$28,464 |
| 299027 | TN | 2,266 | \$20,962 |
| 279043 | LA | 1,797 | \$16,625 |
| 239021 | NC | 1,745 | \$16,142 |
| 369022 | MN | 1,700 | \$15,727 |
| 269051 | KY | 1,461 | \$13,515 |
| 449086 | TX | 1,407 | \$13,017 |
| 249018 | SC | 1,138 | \$10,529 |
| 119005 | MA | 745 | \$6,894 |
| 219016 | FL | 710 | \$6,570 |
| 409013 | AR | 427 | \$3,951 |
| 319025 | MI | 422 | \$3,904 |
| 209025 | WV | 308 | \$2,853 |
| 419027 | KS | 139 | \$1,288 |
| 509016 | UT | 78 | \$724 |
| 559028 | NV | 67 | \$620 |
| Total | | 657,895 | \$6,085,609 |

Note: The amount of support reflects disbursements as of the commencement of the audit.

BACKGROUND

The Holding Company operates as a competitive eligible telecommunications carrier (ETC) in all of the states identified in the Scope table above.

PROCEDURES

DPG performed the following procedures:

A. FCC Form 497

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

B. Program Eligibility Documentation

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to verify program eligibility. DPG obtained and tested eligibility documentation for a sample of 317 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to comply with the Independent Economic Household (IEH) requirements. DPG obtained and tested documentation for a sample of 487 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. NLAD/State Database Validation

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

E. Transferred Subscribers

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

F. Deceased Subscribers

DPG obtained the Holding Company's subscriber listings and worked with USAC to identify currently deceased subscribers. DPG selected a sample of 86 subscribers who were deceased and were claimed after their date of death. DPG obtained and tested certification, recertification, and usage documentation for these subscribers to determine whether the Holding Company complied with the Rules while continuing to claim the subscriber.

G. Duplicate Subscribers

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.407(a) – Form 497 and State Database Variance

CONDITION

DPG obtained and analyzed the Holding Company's subscriber data listed in the applicable state database reports to determine whether the Holding Company reported the correct number of qualifying eligible subscribers on its 2017 Forms 497.¹ DPG identified 3,725 instances for 2,061 subscribers where the subscriber was claimed and was not identified as eligible in the applicable state database report. The variances identified by state are as follows:

- California – DPG obtained and analyzed the Holding Company's subscriber data listed in the applicable monthly California Weighted Average Report (WAR) to determine whether the Holding Company reported the correct number of qualifying eligible subscribers on its 2017 Forms 497. DPG noted a variance of 3,655 instances (2,034 subscribers) between the Form 497 submissions and the 2017 WARs prepared by the California Public Utilities Commission (CPUC).
- Texas – DPG obtained and analyzed the Low-Income Discount Administrator (LIDA) database to determine whether the Holding Company reported the correct number of qualifying eligible subscribers on its 2017 Forms 497. DPG noted a variance of 70 instances (27 subscribers) between the Form 497 submissions and the 2017 LIDA database information provided by the Public Utility Commission of Texas (PUCT).

CAUSE

The Holding Company did not have an adequate system in place for removing subscribers from its Form 497 claim who were not identified as eligible by the state Public Utilities Commission (PUC).

EFFECT

| Support Type | Monetary Effect | Recommended Recovery |
|-----------------------|-----------------|----------------------|
| Lifeline – California | \$33,809 | \$33,809 |
| Lifeline – Texas | \$648 | \$648 |
| Total | \$34,457 | \$34,457 |

DPG calculated the monetary effect for California by multiplying the 3,655 instances where the 2,034 subscribers were claimed on the Form 497 and not identified as eligible on the WAR by the support amount requested on the applicable 2017 Form 497 (\$9.25) and rounded to the nearest whole dollar. The Holding Company indicated in its responses to all 3,655 instances, that it previously identified an issue for the subscriber and adjusted its support claim accordingly through a Form 497 adjustment(s) submitted subsequent to the announcement of our audit.

¹ See 47 C.F.R. §§ 54.407(a), 417(a) (2016).

DPG calculated the monetary effect for Texas by multiplying the 70 instances where the 27 subscribers were claimed on the Form 497 and not identified as eligible on the LIDA report by the support amount requested on the applicable 2017 Form 497 (\$9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above that has not already been repaid by the Holding Company. DPG also recommends that the Holding Company implement an adequate system to remove subscribers from its Form 497 claim who are not identified as eligible in the corresponding state database.

HOLDING COMPANY RESPONSE

As DPG indicates above, Global Connection Inc. of America d/b/a StandUp Wireless previously paid back the full recommended recovery amount of \$33,809 for California. Prior to the commencement of the audit, Global was in the process of completing several revisions to our 497 files. For each consumer instance identified in this portion of the audit, all funds were previously paid back in full. Global will provide documentation demonstrating these downward revisions. Furthermore, the downward revisions were not completed because of this audit, and these revisions were completed due to our own findings from internal audits.

Additionally, Global respectfully disagrees that 68 of the 70 instances of Texas subscribers that were not found on the file. The 68 subscribers were listed on the file; however, these subscribers were listed for state funds only. Texas does not pay state funds to wireless subscribers, so the inclusion of these subscribers from Solix was superfluous and unnecessary. After Global completed research with Solix (Texas' Third-Party Administrator), Solix changed their process for all wireless carriers in April 2020 to remove non-federal consumers from the file. These consumers were only able to receive state funds and should not have been included in the files received from Texas in the first place. Global hopes that USAC and the Commission continues to diligent work with Texas in identifying faulty processes.

DPG RESPONSE

Regarding the 68 Texas subscribers listed for state funds only, DPG coordinated its audit effort with the PUCT to understand the methods by which eligible federal subscribers are determined. As provided for in Texas Admin Code § 26.412(g)(2)(A)(iii) and (iv), the PUCT confirmed that final eligibility is determined via a process where the Holding Company submits a file of residential customers for review by the LIDA each month. Upon completion of its review, the LIDA provides an updated file identifying the subscribers eligible to receive support for the applicable month. Accordingly, DPG conducted our analysis by comparing the subscriber listings supporting the Holding Company's federal Form 497 filings against monthly LIDA reports provided by the PUCT. The listing provided by the PUCT only listed those subscribers who were eligible for federal Lifeline subsidy.

DPG presented the initial eligibility variances identified by our comparison to the Holding Company for review on March 01, 2019 and received confirmation on May 31, 2019 that the Holding Company agreed with the variances identified. DPG also presented the variances to the Holding Company on January 9, 2020 as part of our fieldwork completion process and received no evidence indicating that these subscribers were eligible for federal support. For the reasons above, we maintain our position that the Holding Company did not have an adequate system in place for removing subscribers from its Form 497 claims who were not identified as eligible for federal support by the state PUC, and that the 68 instances disputed by the Holding Company were not identified as eligible for federal support in the applicable month on the 2017 LIDA reports prepared by the PUCT.

Finding #2: 47 C.F.R. § 54.404(b) – Form 497 and NLAD Variance**CONDITION**

DPG obtained and analyzed the Holding Company's subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Holding Company reported the correct number of qualifying subscribers on the Forms 497.² Using the enrollment, transfer in, de-enrollment, and transfer out dates in NLAD, DPG compared the subscribers identified as active in NLAD against the subscribers who were claimed on the Forms 497 during the audit period. DPG identified 301 instances for 267 subscribers where a subscriber was claimed and was not identified as active in NLAD for the month claimed. DPG also identified 85 instances for 56 subscribers where the subscriber was recorded in NLAD but was not listed under the same SAC for which they were claimed.

For the 301 instances, DPG determined that 252 instances occurred in Kentucky SAC 269051, 19 instances occurred in Louisiana SAC 279039, 14 instances occurred in GA SACs 229016 and 229022, 7 instances occurred in North Carolina SAC 239021, 4 instances occurred in South Carolina SAC 249032, 3 instances occurred in Maryland SAC 189015, 1 instance occurred in Alabama SAC 259028, and 1 instance occurred in Puerto Rico SAC 639013.

DPG further categorized the variances as follows:

Subscribers not Active in NLAD

| Variance Category | Number of Subscribers | Number of Instances |
|---|-----------------------|---------------------|
| Subscriber did not have a valid NLAD transaction. | 159 | 186 |
| Subscriber was enrolled in NLAD after the 1 st day of the month. | 108 | 115 |
| Total | 267 | 301 |

Subscribers Active under an Incorrect SAC in NLAD

| Variance Category | Number of Subscribers | Number of Instances |
|--|-----------------------|---------------------|
| Subscriber was claimed under South Carolina SAC 249032 but was enrolled under South Carolina SAC 249018. | 50 | 73 |
| Subscriber was claimed under Georgia SAC 229016 but was enrolled under Georgia SAC 229022. | 2 | 6 |
| Subscriber was claimed under Georgia SAC 229022 but was enrolled under Michigan SAC 319030. | 1 | 2 |
| Subscriber was claimed under Mississippi SAC 289035 but was enrolled under Louisiana SAC 279039. | 1 | 2 |
| Subscriber was claimed under Mississippi SAC 289035 but was enrolled under North Carolina SAC 239021. | 1 | 1 |
| Subscriber was claimed under North Carolina SAC 239021 but was enrolled under Georgia SAC 229016. | 1 | 1 |
| Total | 56 | 85 |

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

The Holding Company is required to transmit requisite information for each new and existing Lifeline subscriber to NLAD and correspondingly, to update its records for subscribers identified in NLAD as transferred.³ The Holding Company must also report the number of qualifying subscribers on the Form 497 based on subscribers who have met all requirements to be eligible for Lifeline Program support and for whom the Holding Company provides Lifeline service.⁴

CAUSE

The Holding Company did not have an adequate system in place for monitoring NLAD data to report the correct number of qualifying Lifeline subscribers on the Form 497.

EFFECT

| Support Type | Monetary Effect | Recommended Recovery |
|--------------|-----------------|----------------------|
| Lifeline | \$2,784 | \$2,784 |

DPG calculated the monetary effect by multiplying the 301 instances where the 267 subscribers were claimed on the Form 497 and not listed as active in NLAD by the support amount requested on the applicable 2017 Form 497 (\$9.25) and rounded to the nearest whole dollar. The Holding Company indicated in its responses to 262 of the instances, that it previously identified an issue for the subscriber and adjusted its support claim accordingly through a Form 497 adjustment(s) submitted subsequent to the announcement of our audit.

There is no monetary effect for the 85 instances where the 56 subscribers were recorded in NLAD under the incorrect SAC as these subscribers were recorded in NLAD. However, recording subscribers under the incorrect SAC in NLAD diminishes the capability to use NLAD as a reconciling tool.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above that has not already been repaid by the Holding Company. DPG is aware that the current Form 497 claims process has been revised. Therefore, we make no recommendation regarding the NLAD monitoring process.

HOLDING COMPANY RESPONSE

Global echoes our response to the first finding above. Prior to the commencement of the audit, Global was in the process of completing a number of revisions to our 497 files. For each consumer and instance identified in this portion of the audit, all funds were previously paid back in full. Furthermore, the downward revisions were not completed as a result of this audit, and these revisions were completed due to our findings in our own internal audits as Global is fully committed to compliance.

For the remaining consumers that Global did not complete a downward revision on the 497, Global acknowledges the findings. Global Connections implemented a robust daily NLAD reconciliation in 2018 to ensure the fullest compliance with all applicable systems. This process verifies and confirms all customer de-enrollments made via the carrier, NLAD, and/or the state's third party administrator. Additionally, all enrollments are reconciled between Global Connection's OSS Vendor system, the National Verifier, the state administrator, and the NLAD (where applicable). This current process ensures Global Connections is in full compliance with the Commission's NLAD rules detailed in section 47 CFR §54.404(b).

³ See 47 C.F.R. § 54.404(b)(2), (6), (8), (10) (2016)

⁴ See 47 C.F.R. § 54.407(a) (2016)

Effective with the January 2018 data month, Global Connection reimbursement claims only subscribers included on the Monthly NLAD Snapshot Report. Furthermore, effective with the December 2020 Hard Launch of California and Texas in the National Verifier and NLAD systems, Global only claims federal reimbursement for eligible subscribers listed in the Lifeline Claims System (LCS).

Finding #3: 47 C.F.R. § 54.417(a) – Lack of Documentation: One-Per-Household Documentation**CONDITION**

DPG requested one-per-household (OPH) documentation for a statistically valid sample of 271 subscribers, and a statistically valid sample of 216 subscribers at addresses where 10 or more subscribers reside.⁵ The Holding Company was not able to provide support for 15 of the 271 sampled subscribers or 22 of the 216 sampled subscribers. Without one-per household documentation for these subscribers, DPG cannot conclude that the subscribers were eligible to receive Lifeline Program support.⁶

For the 37 missing forms, DPG determined that 19 forms were for Texas SAC 449073, 6 forms were for Arizona SAC 459016, 4 forms were for Puerto Rico SAC 639013, 3 forms were for Georgia SAC 229022, 3 forms were for Nebraska SAC 379025, and 2 forms were for Maryland SAC 189015.

CAUSE

The Holding Company did not have adequate data retention procedures to ensure the proper retention of documentation to demonstrate subscribers made the required one-per-household certifications. The Holding Company indicated in its response to our sample request that certain forms were lost or compromised during its OSS migration.

EFFECT

| Support Type | Monetary Effect | Recommended Recovery |
|--------------|-----------------|----------------------|
| Lifeline | \$1,332 | \$1,332 |

DPG calculated the 2017 monetary effect by first determining the number of instances (months) in 2017 the Holding Company claimed the 37 subscribers. DPG identified a total of 144 such instances. DPG multiplied the 144 instances by the support amount requested on the applicable 2017 Form 497 (\$9.25) and rounded to the nearest whole dollar.

Extrapolation of Improperly Claimed Reimbursement

As summarized in the chart below, the sample findings were extrapolated to the population of 7,864 subscribers identified at an OPH address during 2017 to develop an estimated number of subscribers with missing documentation:

⁵ See 47 C.F.R. § 54.417(a) (2016).

⁶ See 47 C.F.R. §§ 54.400(h), 404(b)(3), 409(c), 410 (g) (2016); *see also* Lifeline Reform Order, at paragraph 78 (2012).

| Lower Bound with 90% Confidence | Point Estimate with 90% Confidence | Upper Bound with 90% Confidence |
|--|---|--|
| 338 subscribers | 535 subscribers | 731 subscribers |

Given the average Monetary Effect of \$36.00 per subscriber (\$1,332/37 subscribers) and the Point Estimate above, the Extrapolated Value was calculated as \$19,260.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. DPG also recommends that the Holding Company implement policies and procedures to establish a documentation retention process that allows it to respond fully to audit documentation requests in compliance with the Rules.

HOLDING COMPANY RESPONSE

Global recognizes the findings. Global maintains that we obtained the One Per Household rule as required; nevertheless, the subscriber's one per house hold form cannot currently be located. Global Connections has implemented policies and procedures to ensure we are fully in compliance with the Commission's One Per Household rules defined in 47 CFR §54.404(b)(1) and §54.404(b)(3).

Additionally, Global Connection has further expanded the company's document retention policies and procedures to ensure compliance with 47 C.F.R. § 54.417(a).

Finally, Global takes compliance very seriously, and we hold our company and our representatives to the highest standards. While Global works diligently on a daily basis to ensure that our robust processes and procedures will eventually lead to audits with zero findings, we are relieved that the applicable recovery amounts equates to .0008% of the funds disbursed to Global in 2017.

CRITERIA

| | Criteria | Description |
|------------|---|---|
| #1, #2 | 47 C.F.R. § 54.407(a) (2016) | "Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income consumers it serves directly as of the first day of the month." |
| #1, #2, #3 | 47 C.F.R. § 54.417(a) (2016) | "Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in ... [47 C.F.R.] § 54.404(b)(11), 54.410(b), 54.410(c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years." |
| #2 | 47 C.F.R. § 54.404(b)(2), (6), (8), (10) (2016) | <p>"(b) <i>The National Lifeline Accountability Database</i>. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: ...</p> <p>(2) If the Database indicates that a prospective subscriber, who is not seeking to port his or her telephone number, is currently receiving a Lifeline service, the eligible telecommunications carrier must not provide and shall not seek or receive Lifeline reimbursement for that subscriber....</p> <p>(6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline....</p> <p>(8) All eligible telecommunications carriers must update an existing Lifeline subscriber's information in the Database within ten business days of receiving any change to that information, except as described in paragraph (b)(10) of this section....</p> <p>(10) When an eligible telecommunications carrier de-enrolls a subscriber, it must transmit to the Database the date of Lifeline service de-enrollment within one business day of de-enrollment."</p> |
| #3 | 47 C.F.R. § 54.400(h) (2016) | "A 'household' is any individual or group of individuals who are living together at the same address as one economic unit. A household may include related and unrelated persons. An 'economic unit' consists of all adult individuals contributing to and sharing in the income and expenses of a household. An adult is any person eighteen years or older. If an adult has no or minimal income, and lives with someone who provides financial support to him/her, both people shall be |

| | Criteria | Description |
|----|---|---|
| | | considered part of the same household. Children under the age of eighteen living with their parents or guardians are considered to be part of the same household as their parents or guardians.” |
| #3 | 47 C.F.R. § 54.404(b)(3) (2016) | “If the [National Lifeline Accountability] Database indicates that another individual at the prospective subscriber’s residential address is currently receiving a Lifeline service, the eligible telecommunications carrier must not seek and will not receive Lifeline reimbursement for providing service to that prospective subscriber, unless the prospective subscriber has certified, pursuant to [47 C.F.R.] §54.410(d) that to the best of his or her knowledge, no one in his or her household is already receiving a Lifeline service.” |
| #3 | 47 C.F.R. § 54.409I (2016) | “In addition to meeting the qualifications provided in paragraph (a) or (b) of this section, in order to constitute a qualifying low-income consumer, a consumer must not already be receiving a Lifeline service, and there must not be anyone else in the subscriber’s household subscribed to a Lifeline service.” |
| #3 | 47 C.F.R. § 54.410(g) (2016) | “The prospective subscriber will complete a form certifying compliance with the one-per-household rule upon initial enrollment. Such form will provide an explanation of the one-per-household rule; include a check box that the applicant can mark to indicate that he or she lives at an address occupied by multiple households; a space for the applicant to certify that he or she shares an address with other adults who do not contribute income to the applicant’s household and share in the household’s expenses or benefit from the applicant’s income; and the penalty for consumer’s failure to make the required one-per-household certification, i.e. de-enrollment. At re-certification, if there are changes to the subscriber’s household that would prevent the subscriber from accurately certifying to § 54.410(d)(3)(vi), then the subscriber must complete a new One-Per-Household Worksheet. If a Federal One Per Household Form is available, entities enrolling subscribers must use such form.” |
| #3 | <i>Lifeline and Link Up Reform and Modernization, Lifeline and Link Up, Federal-State Joint Board on Universal Service, Advancing Broadband Availability Through Digital Literacy Training, WC Docket No. 11-42 et. al., Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6691, para. 78 (2012) (Lifeline Reform Order)</i> | “As explained below in the database section, upon receiving an application for Lifeline support, all ETCs must check the duplicates database to determine whether an individual at the applicant’s residential address is currently receiving Lifeline-supported service. The ETC must also search its own internal records to ensure that it does not already provide Lifeline-supported service to someone at that residential address. If nobody at the residential address is currently receiving Lifeline-supported service, the ETC may initiate Lifeline service after determining that the household is otherwise eligible to receive Lifeline and obtaining all required certifications from the household. If the ETC determines that an individual at the applicant’s residential address is currently receiving Lifeline-supported service, the ETC must take an additional step to ensure that the applicant and the current subscriber are part of different households. To enable applicants to make this demonstration, the ETC must require applicants to complete and submit to the ETC a written document, to be developed by USAC as discussed below, containing the following: (1) an explanation of the Commission’s one-per-household rule; (2) a check box that an applicant can mark to indicate that he or she lives at an address occupied by multiple households; (3) a space for the applicant to certify that he or |

| | Criteria | Description |
|--|----------|---|
| | | she shares an address with other adults who do not contribute income to the applicant's household and share in the household's expenses or benefit from the applicant's income, pursuant to the definition we adopt here today; and (4) the penalty for a consumer's failure to make the required one-per-household certification (i.e., de-enrollment). All ETCs must collect the completed document upon initial program enrollment from those consumers who apply for Lifeline using a residential address that the ETC determines is already receiving Lifeline-supported service." |

Attachment C

LI2019LR001

Available For Public Use

Great Plains Communications Inc.

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2019LR001

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EXECUTIVE SUMMARY

April 2, 2021

Rodney Thiemann
Senior Director – Regulatory Finances
Great Plains Communications Inc.
1600 Great Plains Centre
Blair, Nebraska, 68008

Dear Mr. Thiemann:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Great Plains Communications (Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers during the calendar year 2018, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

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

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

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

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

Sincerely,

A handwritten signature in blue ink, reading "Jeanette Santana Gonzalez". The signature is written in a cursive, flowing style.

Jeanette Santana Gonzalez
Senior Director, Audit and Assurance Division

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

AUDIT RESULTS AND RECOVERY ACTION

| Audit Results | Monetary Effect (A) | Overlapping Exceptions ¹ (B) | Recommended Recovery (A) - (B) |
|---|------------------------|---|--------------------------------------|
| Finding #1: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification, Recertification and Eligibility Documentation. The Beneficiary did not provide all the requested documentation. | \$8,666 | \$0 | \$8,666 |
| Finding #2: 47 C.F.R. §§ 54.410(c)–(d) – Improper Certification and Recertification Documentation Disclosures and Eligibility Criteria. The certification forms used by the Beneficiary did not contain the required disclosures and contained incorrect eligibility criteria. | \$865 | \$124 | \$741 |
| Total Net Monetary Effect | \$9,531 | \$124 | \$9,407 |

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claim System (LCS) submissions for the calendar year 2018 (the audit period):

| SAC Number | State/Territory | Support Type | Number of Subscribers | Amount of Support |
|------------|-----------------|--------------|--------------------------|----------------------|
| 371577 | NE | Lifeline | 3,149 | \$31,833 |

Note: The amount of support reflects disbursements as of the commencement of the audit.

¹ If the Beneficiary files an appeal and is successful, USAC will discontinue recovery efforts for the finding(s) that were resolved by the appeal decision. If there is overlapping recovery (i.e., recovery that is included in two or more findings), the overlapping recovery will be recovered based on the finding(s) that were not resolved by the appeal decision.

BACKGROUND

The Beneficiary is an incumbent eligible telecommunications carrier (ETC) that operates in the state identified in the Scope table above.

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claim System

AAD obtained and examined the Beneficiary's LCS submission for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files. AAD used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the LCS submission and in NLAD or the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased subscribers.
- The data file contained transferred subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. AAD also requested certification and/or recertification documentation and examined forms when provided for 60 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Lifeline Subscriber Discounts

AAD obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 60 subscribers.

D. Form 555

AAD obtained and examined the Beneficiary's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported to the Beneficiary's data files.

E. Minimum Service Standard

AAD obtained and examined the Beneficiary's evidence of the level of service provided for 60 subscribers to determine whether the Beneficiary provided eligible services that meet the minimum service standards and complied with the Rules.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification, Recertification and Eligibility Documentation

CONDITION

AAD requested certification or re-certification forms and proof of eligibility for a non-statistical sample of 60 subscribers,² as applicable, to determine whether the subscribers were eligible to receive the Lifeline program support claimed by the Beneficiary. The Beneficiary did not provide the requested documentation for seven out of the 60 subscribers, as detailed below:

| Documentation | Number of Affected Subscriber Documentation |
|--|---|
| Re-certification form not provided | 4 |
| Documentation to confirm Third Party Identity Verification (TPIV) flag ³ not provided | 2 |
| Copy of subscriber's proof of eligibility not provided | 1 |
| Total No. of Affected Subscribers | 7 |

Because the Beneficiary did not provide certification or recertification, and eligibility documentation, AAD concludes the seven subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.⁴

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of certification or recertification forms, and proof of eligibility to demonstrate that subscribers completed the required certifications and presented the required eligibility documentation at application, or recertification form at the anniversary date. The Beneficiary informed AAD that it could not determine the specific reason the documentation could not be located.⁵

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the seven subscribers subsequent to the subscriber's Lifeline start

² AAD selected non-statistical sample of 60 subscribers. For 46 subscribers, the certification/re-certification process was the responsibility of Nebraska Public Service Commission (NPSC) and these subscribers were eligible based on NPSC documentation. The remaining 14 subscribers were certified or re-certified by the Beneficiary and the results are included herein. For TPIV testing, of the 60 subscribers in the sample, 13 subscribers were determined to have TPIV flags and the results are included herein.

³ A TPIV flag occurs during the application process if Lifeline program cannot confirm the identity of the subscriber based upon the data provided the subscriber (i.e., first and last name, address, date of birth, or last four of social security number). To clear the TPIV flag, the beneficiary must collect documentation from the subscriber to resolve the error message and retain copies of what was examined.

⁴ See 47 C.F.R. §§54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) (2017).

⁵ Beneficiary response to audit inquiries, received Nov. 6, 2020.

date as noted in the National Lifeline Accountability Database (NLAD) until December 31, 2018. AAD identified a total of 359 such instances. AAD multiplied the 359 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25 or \$24.70) rounded to the nearest whole dollar. AAD summarized the results below:

| Support Type | Monetary Effect and Recommended Recovery |
|----------------------------------|---|
| Lifeline (Non-Tribal and Tribal) | \$8,666 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the amount identified in the Effect section above. The Beneficiary is responsible to implement policies, procedures and controls to ensure they retain adequate records that demonstrated their compliance with the Rules. USAC designed the National Verifier system to ensure that documentation is maintained where necessary, for subscribers who enroll/recertify in the Lifeline program after the system has been launched in the state. In addition, 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-lifeline-program/>.

BENEFICIARY RESPONSE

Great Plains has implemented policies, additional procedures, and controls to keep adequate records to comply with the Lifeline rules. Great Plains has reviewed these policies and procedures with their staff and ask that they review the "Common Audit Findings: Lifeline Program" on the USAC website as well as the "Customer Eligibility and Recertification Requirements" also on the USAC website.

Great Plains has provided the following information to its staff to assist with proper documentation and recordkeeping on a go-forward basis.

- Document, document, document. Retain appropriate and adequate documentation to support filings, eligibility requirements, data, etc. FCC rules require most beneficiaries to keep documentation for a set number of years (e.g. five years from disbursement). Great Plains needs to retain documentation for as long as the subscriber receives Lifeline service from the service provider, but for no less than the three full preceding calendar years.
- Get organized. Organize your documentation and filings in a logical manner so that transition of responsibilities is seamless.
- Provide sufficient detail on all bills, invoices, and communications with vendors/applicants.
- Review data reported for accuracy prior to submitting it to USAC. Check the specifics.
- Ask questions about documentation or data or program requirements. Use USAC as a resource throughout the year.
- Report data in a timely manner.

Finding #2: 47 C.F.R. § 54.410(c)-(d) – Improper Certification and Recertification Documentation Disclosures and Eligibility Criteria

CONDITION

AAD obtained and examined certification or recertification documentation for a non-statistical sample of 6

subscribers⁶ to determine whether the certification/recertification documentation included the proper disclosures and the subscriber completed the required certifications. For all 6 subscribers, the Beneficiary used one of two different certification/recertification forms that omitted disclosures and contained incorrect eligibility criteria as identified below:

| Omitted Disclosures and Incorrect Eligibility Criteria | No. of Affected Subscriber Certification/Recertification Documentation |
|---|---|
| “(3) The form provided by the entity enrolling subscribers shall require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury:” | 6 |
| The certification form used included income guidelines that had not been updated for 2018 levels ⁷ | 4 |
| Total No. of Affected Subscribers⁸ | 6 |

The Beneficiary must list all of the required disclosures on the subscriber certification/recertification documentation. Because the certification/recertification documentation did not contain all the required language and eligibility criteria stipulated in the rules, the subscribers did not complete the required certifications and recertifications. Therefore, AAD concludes the six subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the required disclosures. The Beneficiary indicated that there were requirement oversights on their behalf and are currently using the proper forms.⁹

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the six subscribers subsequent to the subscriber’s Lifeline start date as noted in the National Lifeline Accountability Database (NLAD) until December 31, 2018. AAD identified a total of 35 such instances. AAD multiplied the 35 instances by the Lifeline support amount reimbursed to the Beneficiary (\$24.70) rounded to the nearest whole dollar. AAD summarized the results below:

⁶ AAD selected non-statistical sample of 44 subscribers. For 34 subscribers the certification/recertification process was the responsibility of Nebraska Public Service Commission (NPSC) and these subscribers were eligible based on NPSC documentation. The remaining 10 subscribers were certified or re-certified by the Beneficiary; however, the Beneficiary did not provide four re-certification forms (refer to results included in Finding #1: Lack of Documentation: Subscriber Certification, Recertification and Eligibility Documentation). Results of the six subscribers are included herein.

⁷ See 47 C.F.R. § 54.409(a) (2017).

⁸ Documentation for each subscriber certification or recertification may omit multiple disclosures. Therefore, one certification or recertification may be included in multiple rows in the table above.

⁹ Beneficiary response to audit inquiries, received Nov. 6, 2020.

| Support Type | Monetary Effect (A) | Overlapping Exceptions (B) | Recommended Recovery¹⁰ (A) – (B) |
|---------------------|--------------------------------|---------------------------------------|--|
| Lifeline (Tribal) | \$865 | \$124 | \$741 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amount identified in the Effect section above. Until the launch of the National Verifier in the state, the Beneficiary was responsible to employ the use of the Lifeline Application and Recertification forms to obtain the proper certifications from its subscribers. USAC designed the National Verifier system to ensure that subscribers who enroll in the Lifeline program properly complete the forms (including the required disclosures) after the system has been launched in the state. Further, the Beneficiary may learn more about Lifeline subscriber certification and recertification disclosure requirements on USAC's website at <http://www.usac.org/li/program-requirements/verify-eligibility/record-keeping-requirements.aspx>.

BENEFICIARY RESPONSE

Great Plains has the recent updated federal Lifeline application (FCC Form 5629) and recertification form (FCC Form 5630) in their office as well as their staff have been provided the USAC website: <https://www.usac.org/lifeline/additional-requirements/forms/> for future reference.

This link has also been provided to staff for record keeping guidelines. <https://www.usac.org/lifeline/additional-requirements/record-keeping/>

¹⁰ To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$124 overlaps with the recommended recovery in Finding #1.

CRITERIA

| Finding | Criteria | Description |
|---------|----------------------------------|--|
| #1 | 47 C.F.R. § 54.417(a) (2017) | Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years. |
| #1 | 47 C.F.R. § 54.404(b)(11) (2017) | <i>The National Lifeline Accountability Database.</i> In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: (11) All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or investigations or to the extent required by NLAD processes, which require, inter alia, verification of eligibility, identity, address, and age. |
| #1 | 47 C.F.R. § 54.410(b) (2017) | <i>Initial income-based eligibility determination.</i> (1) Except where the National Verifier, state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline using the income-based eligibility criteria provided for in §54.409(a)(1) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's income-based eligibility using the following procedures: (A) If an eligible telecommunications carrier can determine a prospective subscriber's income-based eligibility by accessing one or more databases containing information regarding the subscriber's income ("income databases"), the eligible telecommunications carrier must access such income databases and determine whether the prospective subscriber qualifies for Lifeline. (B) If an eligible telecommunications carrier cannot determine a prospective subscriber's income-based eligibility by accessing income databases, the eligible telecommunications carrier must review documentation that establishes that the prospective subscriber meets the income-eligibility criteria set forth in §54.409(a)(1). Acceptable documentation of income eligibility includes the prior year's state, federal, or Tribal tax return; current income statement |

| Finding | Criteria | Description |
|---------|------------------------------|---|
| | | <p>from an employer or paycheck stub; a Social Security statement of benefits; a Veterans Administration statement of benefits; a retirement/pension statement of benefits; an Unemployment/Workers' Compensation statement of benefit; federal or Tribal notice letter of participation in General Assistance; or a divorce decree, child support award, or other official document containing income information. If the prospective subscriber presents documentation of income that does not cover a full year, such as current pay stubs, the prospective subscriber must present the same type of documentation covering three consecutive months within the previous twelve months.</p> <p>(ii) Must securely retain copies of documentation demonstrating a prospective subscriber's income-based eligibility for Lifeline consistent with §54.417, except to the extent such documentation is retained by the National Verifier.</p> <p>(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, an eligible telecommunications carrier must not seek reimbursement for providing Lifeline service to a subscriber, based on that subscriber's income eligibility, unless the carrier has received from the National Verifier, state Lifeline administrator, or other state agency:</p> <p>(i) Notice that the prospective subscriber meets the income-eligibility criteria set forth in § 54.409(a)(1); and</p> <p>(ii) If a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, a copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section</p> <p>(iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.</p> |
| #1, 2 | 47 C.F.R. § 54.410(c) (2017) | <p><i>Initial program-based eligibility determination.</i></p> <p>(1) Except in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in § 54.409(a)(2) or (b),” an eligible telecommunications carrier:</p> <p>(i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility using the following procedures:</p> <p>(A) If the eligible telecommunications carrier can determine a prospective subscriber's program-based eligibility for Lifeline</p> |

| Finding | Criteria | Description |
|---------|------------------------------|--|
| | | <p>by accessing one or more databases containing information regarding enrollment in qualifying assistance programs (“eligibility databases”), the eligible telecommunications carrier must access such eligibility databases to determine whether the prospective subscriber qualifies for Lifeline based on participation in a qualifying assistance program; or</p> <p>(B) If an eligible telecommunications carrier cannot determine a prospective subscriber's program-based eligibility for Lifeline by accessing eligibility databases, the eligible telecommunications carrier must review documentation demonstrating that a prospective subscriber qualifies for Lifeline under the program-based eligibility requirements. Acceptable documentation of program eligibility includes the current or prior year's statement of benefits from a qualifying assistance program, a notice or letter of participation in a qualifying assistance program, program participation documents, or another official document demonstrating that the prospective subscriber, one or more of the prospective subscriber's dependents or the prospective subscriber's household receives benefits from a qualifying assistance program.</p> <p>(ii) Must securely retain copies of the documentation demonstrating a subscriber's program-based eligibility for Lifeline, consistent with § 54.417, except to the extent such documentation is retained by the National Verifier.</p> <p>(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based eligibility criteria provided in § 54.409(a)(2) or (b), an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received from the National Verifier, state Lifeline administrator or other state agency:</p> <p>(i) Notice that the subscriber meets the program-based eligibility criteria set forth in § 54.409(a)(2) or (b); and</p> <p>(ii) If a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, a copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section.</p> <p>(iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.</p> |
| #1 | 47 C.F.R. § 54.410(f) (2017) | <p>Annual eligibility re-certification process.</p> <p>(1) All eligible telecommunications carriers must annually re-certify all subscribers, except for subscribers in states where the National Verifier, state Lifeline administrator, or other state agency is</p> |

| Finding | Criteria | Description |
|---------|----------|---|
| | | <p>responsible for the annual re-certification of subscribers' Lifeline eligibility.</p> <p>(2) In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by:</p> <ul style="list-style-type: none"> (i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or (ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review. (iii) If the subscriber's program-based or income-based eligibility for Lifeline cannot be determined by accessing one or more eligibility databases, then the eligible telecommunications carrier must obtain a signed certification from the subscriber confirming the subscriber's continued eligibility. If the subscriber's eligibility was previously confirmed through an eligibility database during enrollment or a prior recertification and the subscriber is no longer included in any eligibility database, the eligible telecommunications carrier must obtain both an Annual Recertification Form and documentation meeting the requirements of paragraph (b)(1)(i)(B) or (c)(1)(i)(B) from that subscriber to complete the process. Eligible telecommunications carriers must use the Wireline Competition Bureau-approved universal Annual Recertification Form, except where state law, state regulation, a state Lifeline administrator, or a state agency requires eligible telecommunications carriers to use state-specific Lifeline recertification forms. (iv) In states in which the National Verifier has been implemented, the eligible telecommunications carrier cannot re-certify subscribers not found in the National Verifier by obtaining a certification form from the subscriber. <p>(3) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of a subscriber's Lifeline eligibility, the National Verifier, state Lifeline administrator, or <u>state</u> agency must confirm a subscriber's current eligibility to receive a Lifeline service by:</p> <ul style="list-style-type: none"> (i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or (ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review. |

| Finding | Criteria | Description |
|---------|------------------------------|--|
| | | <p>(iii) If the subscriber's program-based or income-based eligibility for Lifeline cannot be determined by accessing one or more eligibility databases, then the National Verifier, state Lifeline administrator, or state agency must obtain a signed certification from the subscriber confirming the subscriber's continued eligibility. If the subscriber's eligibility was previously confirmed through an eligibility database during enrollment or a prior recertification and the subscriber is no longer included in any eligibility database, the National Verifier, state Lifeline administrator, or state agency must obtain both an approved Annual Recertification Form and documentation meeting the requirements of paragraph (b)(1)(i)(B) or (c)(1)(i)(B) from that subscriber to complete the certification process. Entities responsible for re-certification under this section must use the Wireline Competition Bureau-approved universal Annual Recertification Form, except where state law, state regulation, a state Lifeline administrator, or a state agency requires eligible telecommunications carriers to use state-specific Lifeline recertification forms, or where the National Verifier Recertification Form is required.</p> <p>(4) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of subscribers' Lifeline eligibility, the National Verifier, state Lifeline administrator, or other state agency must provide to each eligible telecommunications carrier the results of its annual re-certification efforts with respect to that eligible telecommunications carrier's subscribers.</p> <p>(5) If an eligible telecommunications carrier is unable to re-certify a subscriber or has been notified by the National Verifier, a state Lifeline administrator, or other <u>state</u> agency that it is unable to re-certify a subscriber, the eligible telecommunications carrier must comply with the de-enrollment requirements provided for in § 54.405(e)(4).</p> |
| #2 | 47 C.F.R. § 54.410(d) (2017) | <p><i>Eligibility certification form.</i></p> <p>Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program.</p> <p>(1) The form provided by the entity enrolling subscribers must provide the information in paragraphs (d)(1)(i) through (vi) of this section: (i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program; (ii) Only one Lifeline service is</p> |

| Finding | Criteria | Description |
|---------|----------|---|
| | | <p>available per household; (iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program; and (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person.</p> <p>(2) The form provided by the entity enrolling subscribers must require each prospective subscriber to provide the information in paragraphs (d)(2)(i) through (viii) of this section: (i) The subscriber's full name; (ii) The subscriber's full residential address; (iii) Whether the subscriber's residential address is permanent or temporary; (iv) The subscriber's billing address, if different from the subscriber's residential address; (v) The subscriber's date of birth; (vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number; (vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; and (viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in § 54.409, the number of individuals in his or her household.</p> <p>(3) The form provided by the entity enrolling subscribers shall require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury: (i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in § 54.409; (ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit. (iii) If the subscriber is seeking to qualify for Lifeline as an eligible resident of Tribal lands, he or she lives on Tribal lands, as defined in 54.400(e); (iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days; (v) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service; (vi) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge; (vii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and (viii) The subscriber acknowledges that the</p> |

| Finding | Criteria | Description |
|---------|------------------------------|--|
| | | subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to § 54.405(e)(4). |
| #2 | 47 C.F.R. § 54.409(a) (2017) | To constitute a qualifying low-income consumer: (1) A consumer's household income as defined in § 54.400(f) must be at or below 135% of the Federal Poverty Guidelines for a household of that size; or(2) The consumer, one or more of the consumer's dependents, or the consumer's household must receive benefits from one of the following federal assistance programs: Medicaid; Supplemental Nutrition Assistance Program; Supplemental Security Income; Federal Public Housing Assistance; or Veterans and Survivors Pension Benefit. |

This concludes the report

Attachment D

LI2019LR003

Available For Public Use

North Dakota Telephone Company

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2019LR003

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EXECUTIVE SUMMARY

March 30, 2021

Shawna Senger
Chief Financial Officer
North Dakota Telephone Company
211 22nd St. NW
Devils Lake, ND 58301

Dear Ms. Senger:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of North Dakota Telephone Company (Beneficiary) for all study area codes (SACs) where the Beneficiary claimed subscribers during the calendar year 2018, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 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 one detailed audit finding (Finding) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with 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 Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

A handwritten signature in blue ink, reading "Jeanette Santana-Gonzalez".

Jeanette Santana-Gonzalez
Senior Director, Audit and Assurance Division

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

AUDIT RESULTS AND RECOVERY ACTION

| Audit Results | Monetary Effect and Recommended Recovery |
|--|---|
| Finding #1: 47 C.F.R. 54.410(b)(1)(i) - Improper Certification Completion. The Beneficiary did not have adequate systems in place for collecting properly completed Lifeline certification forms from applicants and accurately recording the information into the NLAD system. | \$1,081 |
| Total Net Monetary Effect | \$1,081 |

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES**PURPOSE**

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the calendar year 2018 (the audit period):

| SAC Number | State/Territory | Support Type | Number of Subscribers | Amount of Support |
|-------------------|------------------------|---------------------|------------------------------|--------------------------|
| 381447 | ND | Lifeline | 3,819 | \$57,382 |
| | | Tribal Link Up | 17 | \$646 |
| | | Total | 3,836 | \$58,028 |

Note: The amount of support reflects disbursements as of the commencement of the audit.

BACKGROUND

The Beneficiary is an incumbent eligible telecommunications carrier (ETC) that operates in the state/territory identified in the Scope table above.

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

AAD obtained and examined the Beneficiary's LCS submissions for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files. AAD used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the LCS submissions and in NLAD or the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased subscribers.
- The data file contained transferred subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.
- The subscribers who received Tribal Link Up support also received Lifeline support.
- New Tribal subscribers who activated during the audit period received Tribal Link Up support.

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. AAD also requested certification and/or recertification documentation results and examined the documentation, when provided, for 81 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Lifeline Subscriber Discounts

AAD obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 59 subscribers.

D. Form 555

AAD obtained and examined the Beneficiary's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported to the Beneficiary's data files.

E. Minimum Service Standard

AAD obtained and examined the Beneficiary's evidence of the level of service provided for 59 subscribers to determine whether the Beneficiary provided eligible services that meet the minimum service standards and complied with the Rules.

DETAILED AUDIT FINDING

Finding #1: 47 C.F.R. § 54.410(b)(1)(i) – Improper Certification Completion

CONDITION

AAD obtained and examined certification documentation for a non-statistical sample of 46 new subscribers¹ to determine whether the subscribers properly completed their certification form. For 12 of the 46 samples, the subscribers failed to properly complete certain fields on their subscriber certification form as detailed below:

| Omitted Fields ² | No. of Affected Forms |
|---|-----------------------|
| A check in the box indicating whether the residential address was permanent or temporary | 4 |
| Subscriber initials for disclosures | 4 |
| A check in the box indicating the subscriber lives on Tribal Lands where tribal support was claimed | 3 |
| Date the certification form was completed | 2 |
| Errors | |
| Date of Birth (DOB) on certification form did not match DOB in National Lifeline Accountability Database (NLAD) | 1 |
| Total No. of Affected Subscribers³ | 12 |

Because the subscribers did not properly complete the certification forms, AAD concludes the 12 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have adequate systems in place for collecting properly completed Lifeline certification forms from applicants and accurately recording the information into the NLAD. The Beneficiary explained that the Customer Service Representative (CSR) did not check over the documentation thoroughly to make sure all necessary fields were completed.⁴

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 12 subscribers subsequent to the subscriber's Lifeline start date, as noted in the NLAD, until December 31, 2018. AAD identified a total of 58 instances, 32 instances for Non-

¹ AAD selected a non-statistical sample of 81 subscribers, of which 35 subscribers were re-certified by USAC and not included in this testwork.

² See C.F.R. 47 § 54.410(d) (2017).

³ Documentation for each subscriber certification may omit multiple required fields. Therefore, one certification may be included in multiple rows in the table above.

⁴ Beneficiary response to audit inquiries, received Dec. 14, 2020.

Tribal and 26 instances for Tribal subscribers. AAD multiplied the instances by the Lifeline support amount reimbursed to the Beneficiary,⁵ rounded to the nearest whole dollar, and added the amount of Tribal Link-Up Support (\$38). AAD summarized the results below:

| Support Type | Monetary Effect and Recommended Recovery |
|----------------------------------|--|
| Lifeline (Non-Tribal and Tribal) | \$1,043 |
| Link Up | \$38 |
| Total | \$1,081 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement policies, procedures and controls to ensure that it complies with Lifeline program rules. USAC designed the National Verifier system to ensure that subscribers who enroll in the Lifeline program properly complete the Lifeline Application Form after the system has been launched in the state. In addition, the Beneficiary may learn more about Lifeline program requirements on USAC's website at <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/>.

BENEFICIARY RESPONSE

Findings from the audit will be shared with all employees who handle lifeline program procedures. NDTC will continue to work on proper procedural handling of all lifeline materials. With the use of the National Verifier for customer verification, the above type of errors should be eliminated on NDTC's end. NDTC continues to attend USAC trainings to keep current with the ever changing lifeline program.

⁵ For the Non-Tribal subscribers, support requested was \$9.25. For Tribal Subscribers, support requested was \$28.50 for all but one subscriber, who received support of \$34.25.

CRITERIA

| Finding | Criteria | Description |
|---------|------------------------------------|--|
| #1 | 47 C.F.R. § 54.410(b)(1)(i) (2017) | Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in <u>paragraph (d)</u> of this section ... |
| #1 | 47 C.F.R. § 54.410(d) (2017) | <p>(d) <i>Eligibility certification form.</i> Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program.</p> <p>(1) The form provided by the entity enrolling subscribers must provide the information in paragraphs (d)(1)(i) through (vi) of this section:</p> <ul style="list-style-type: none"> (i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program; (ii) Only one Lifeline service is available per household; (iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program; and (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person. <p>(2) The form provided by the entity enrolling subscribers must require each prospective subscriber to provide the information in paragraphs (d)(2)(i) through (viii) of this section:</p> <ul style="list-style-type: none"> (i) The subscriber's full name; (ii) The subscriber's full residential address; (iii) Whether the subscriber's residential address is permanent or temporary; (iv) The subscriber's billing address, if different from the subscriber's residential address; (v) The subscriber's date of birth; (vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number; (vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; and |

| Finding | Criteria | Description |
|---------|----------|---|
| | | <p>(viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in § 54.409, the number of individuals in his or her household.</p> <p>(3) The form provided by the entity enrolling subscribers shall require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury:</p> <p>(i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in § 54.409;</p> <p>(ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit.</p> <p>(iii) If the subscriber is seeking to qualify for Lifeline as an eligible resident of Tribal lands, he or she lives on Tribal lands, as defined in 54.400(e);</p> <p>(iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days;</p> <p>(v) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service;</p> <p>(vi) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge,</p> <p>(vii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and</p> <p>(viii) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to § 54.405(e)(4).</p> |

****This concludes the report****

Attachment E

LI2019LR005

Available For Public Use

Sandhill Telephone Cooperative, Inc.

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2019LR005

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EXECUTIVE SUMMARY

April 2, 2021

Lee Chambers
Chief Executive Officer
Sandhill Telephone Cooperative, Inc.
122 Main St.
Jefferson, SC 29718

Dear Mr. Chambers:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Sandhill Telephone Cooperative, Inc. (Beneficiary) for all study area codes (SACs) where the Beneficiary claimed subscribers during the calendar year 2018, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision). 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 two detailed audit findings (Findings) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in blue ink, reading "Jeanette Santana-Gonzalez".

Jeanette Santana-Gonzalez
Senior Director, Audit and Assurance Division

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

AUDIT RESULTS AND RECOVERY ACTION

| Audit Results | Monetary Effect (A) | Overlapping Exceptions¹ (B) | Recommended Recovery (A) - (B) |
|---|--------------------------------|---|---|
| Finding #1: 47 C.F.R. § 54.410(d) – Improper Certification Documentation Disclosures. The certification form used by the Carrier did not include all the required disclosures and did not have a filed for the subscriber to initial acknowledgement of the disclosure. | \$3,709 | \$0 | \$3,709 |
| Finding #2: 47 C.F.R. § 54.410(b)(1)(i) - Improper Certification Completion. Subscriber did not complete whether their address was temporary or permanent. | \$1,998 | \$1,776 | \$222 |
| Total Net Monetary Effect | \$5,707 | \$1,776 | \$3,931 |

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES**PURPOSE**

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claim System (LCS) submissions for calendar year 2018 (the audit period):

| SAC Number | State/Territory | Support Type | Number of Subscribers | Amount of Support |
|-------------------|------------------------|---------------------|----------------------------------|------------------------------|
| 240546 | SC | Lifeline | 4,202 | \$38,871 |

Note: The amount of support reflects disbursements as of the commencement of the audit.

¹ If the Beneficiary files an appeal and is successful, USAC will discontinue recovery efforts for the finding(s) that were resolved by the appeal decision. If there is overlapping recovery (i.e., recovery that is included in two or more findings), the overlapping recovery will be recovered based on the finding(s) that were not resolved by the appeal decision.

BACKGROUND

The Beneficiary is a incumbent eligible telecommunications carrier (ETC) that operates in the state identified in the Scope table above.

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claim System

AAD obtained and examined the Beneficiary's LCS submission for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files. AAD used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the LCS submission and in NLAD or the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased subscribers.
- The data file contained transferred subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. AAD also requested certification and/or recertification documentation and examined the documentation where provided for 124 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine the steps taken by the Beneficiary to comply with the Independent Economic Household (IEH) requirements. AAD also obtained and tested documentation for one subscriber to determine whether the subscribers properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts

AAD obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 62 subscribers.

E. Form 555

AAD obtained and examined the Beneficiary's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported to the Beneficiary's data files.

F. Minimum Service Standard

AAD obtained and examined the Beneficiary's evidence of the level of service provided for 62 subscribers to determine whether the Beneficiary provided eligible services that meet the minimum service standards and complied with the Rules.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.410(d) – Improper Certification Documentation Disclosures

CONDITION

AAD obtained and examined certification documentation for a non-statistical sample of 91 new subscribers² to determine whether the certification documentation included the proper disclosures and the subscriber completed the required certifications. For 44 of these new subscribers, the Beneficiary used a certification form that omitted disclosures as summarized below:

| Omitted Disclosures and Incorrect Eligibility Criteria | No. of Affected Subscriber Certification Documentation |
|---|--|
| <p>(1) The form provided by the entity enrolling subscribers must provide the information in paragraphs (d)(1)(i) through (vi) of this section:</p> <p>(i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program;</p> <p>(iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses;</p> <p>(iv) A household is not permitted to receive Lifeline benefits from multiple providers;</p> <p>(v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program</p> <p>(vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person.</p> <p>(3) The form provided by the entity enrolling subscribers shall require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury:</p> <p>(i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in §54.409;</p> <p>(ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit.</p> <p>(iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days;</p> <p>(v) The subscriber's household will receive only one Lifeline service and, to the</p> | 44 |

² AAD selected non-statistical sample of 124 subscribers of which 33 subscribers were re-certified by USAC and not included in this testwork, and 28 subscribers were included in the Improper Certification Completion Finding #2.

| Omitted Disclosures and Incorrect Eligibility Criteria | No. of Affected Subscriber Certification Documentation |
|--|--|
| best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service; (vi) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge, (vii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law. (47 C.F.R. § 54.410(d)(1)(i) – (v), (d)(3), (d)(3)(i) – (ii) and (d)(3)(iv) – (vii)) (viii) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to §54.405(e)(4). | |
| Total No. of Affected Subscribers | 44 |

The Beneficiary must list all of the required disclosures on the subscriber certification documentation. Because the certification documentation did not contain all the required language and eligibility criteria stipulated in the rules, the subscribers did not complete the required certifications. Therefore, AAD concludes the 44 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the required disclosures. The Beneficiary informed AAD that it was using forms provided by the state of South Carolina for both State and Federal Lifeline. The State of Carolina forms did not include those disclosures at the time.³

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 44 subscribers subsequent to the subscriber's Lifeline start date as noted in the National Lifeline Accountability Database (NLAD) until December 31, 2018. AAD identified a total of 401 such instances. AAD multiplied the 401 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25) rounded to the nearest whole dollar. AAD summarized the results below:

| Support Type | Monetary Effect and Recommended Recovery |
|-----------------------|--|
| Lifeline (Non-Tribal) | \$3,709 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amount identified in the Effect section above. In addition, USAC Management should consider whether additional recovery is warranted given the high error rate observed during our testing. Until the launch of the National Verifier in the state, the Beneficiary was responsible to employ the use of the Lifeline Application form to obtain the proper

³ Beneficiary response to audit inquiries, received Jan. 15, 2021.

certifications from its subscribers. USAC designed the National Verifier system to ensure that subscribers who enroll in the Lifeline program properly complete the Lifeline Application Form (including the required disclosures) after the system has been launched in the state. Further, the Beneficiary may learn more about Lifeline subscriber certification disclosure requirements on USAC's website at

<https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/>.

BENEFICIARY RESPONSE

We were using forms provided by the State of South Carolina for both State and Federal lifeline. South Carolina state forms did not include the initial disclosures that USAC recommended. We began using the National Verifier application as soon as they became available.

AAD RESPONSE

The Beneficiary stated in its response that it “use[d] forms provided by the State of South Carolina for both State and Federal lifeline” and that the “South Carolina state forms did not include the initial disclosures that USAC recommended.” AAD concurs that the forms the Beneficiary used to enroll subscribers in the Lifeline program did not include all the required disclosures to participate in the Federal Lifeline program. The State of South Carolina Office of Regulatory Staff (State of South Carolina) did not require beneficiaries participating in the Lifeline Program to use a state mandated form to enroll or recertify subscribers receiving a Lifeline benefit during calendar year 2018.^{4, 5} Because the State of South Carolina did not require the Beneficiary to use a state mandated form and the form used did not include all required disclosures per the Rules, the finding remains unchanged.

Finding #2: 47 C.F.R. § 54.410(b)(1)(i) – Improper Certification Completion

CONDITION

AAD obtained and examined certification disclosures for a non-statistical sample of 91 new subscribers to determine whether the documentation contained all of the required disclosures. For 28 of the 91 new subscribers sampled the subscribers failed to properly complete certain field on the subscriber certification documentation as summarized below:

| Error | No. of Affected Subscriber Certification Documentation |
|---|--|
| The box indicating whether the residential address was permanent or temporary was not checked | 28 |
| Total No. of Affected Subscribers | 28 |

⁴ AAD verified via a discussion with Keri Munn, State of South Carolina, Telecommunications Department of the Office of Regulatory Staff on Apr. 5, 2021.

⁵ FCC Public Notice DA 18-161, *Wireline Competition Bureau Provides Guidance on Universal Forms for the Lifeline Program*, effective February 20, 2018.

Because the subscribers did not properly complete the certification/recertification forms, AAD concludes the 28 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing its compliance with the required disclosures. The Beneficiary informed AAD that the subscriber did not complete the application in full leaving the address for temporary or permanent unchecked and the Customer Service Representative did not make sure form was completed in full.⁶

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 28 subscribers subsequent to the subscriber's Lifeline start date as noted in the National Lifeline Accountability Database (NLAD) until December 31, 2018. AAD identified a total of 216 such instances. AAD multiplied the 216 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25) rounded to the nearest whole dollar. AAD summarized the results below:

| Support Type | Monetary Effect (A) | Overlapping Exceptions (B) | Recommended Recovery⁷ (A) – (B) |
|-----------------------|--------------------------------|---------------------------------------|---|
| Lifeline (Non-Tribal) | \$1,998 | \$1,776 | \$222 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amount identified in the Effect section above. In addition, USAC Management should consider whether additional recovery is warranted given the high error rate observed during our testing. Until the launch of the National Verifier in the state, the Beneficiary was responsible to employ the use of the Lifeline Application form to obtain the proper certifications from its subscribers. USAC designed the National Verifier system to ensure that subscribers who enroll in the Lifeline program properly complete the Lifeline Application Form (including all required checkboxes) after the system has been launched in the state. AAD also recommends that the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the Rules related to seeking reimbursement for providing Lifeline for eligible subscribers. Further, the Beneficiary may learn more about Lifeline reimbursement and eligibility requirements on USAC's website at <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/>.

BENEFICIARY RESPONSE

Consumer was not properly filling out the entire application leaving the documentation blank indicating if their location was temporary or permanent. We have advised our team to go over the application to make sure the consumer has completed all fields before submitting the application for lifeline benefits.

⁶ Beneficiary response to audit inquiries, received Jan. 15, 2021.

⁷ To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$1,776 overlaps with the recommended recovery in Finding #1.

CRITERIA

| Finding | Criteria | Description |
|---------|------------------------------|---|
| #1, #2 | 47 C.F.R. § 54.410(d) (2017) | <p><i>Eligibility certification form.</i></p> <p>Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program.</p> <p>(1) The form provided by the entity enrolling subscribers must provide the information in paragraphs (d)(1)(i) through (vi) of this section:(i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program;(ii) Only one Lifeline service is available per household;(iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses;(iv) A household is not permitted to receive Lifeline benefits from multiple providers;(v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program; and(vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person.</p> <p>(2) The form provided by the entity enrolling subscribers must require each prospective subscriber to provide the information in paragraphs (d)(2)(i) through (viii) of this section:(i) The subscriber's full name;(ii) The subscriber's full residential address;(iii) Whether the subscriber's residential address is permanent or temporary;(iv) The subscriber's billing address, if different from the subscriber's residential address;(v) The subscriber's date of birth;(vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number;(vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; and(viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in § 54.409, the number of individuals in his or her household.</p> <p>(3) The form provided by the entity enrolling subscribers shall require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs</p> |

| Finding | Criteria | Description |
|---------|---|--|
| | | (d)(3)(i) through (viii) of this section individually and under penalty of perjury:(i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in § 54.409;(ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit.(iii) If the subscriber is seeking to qualify for Lifeline as an eligible resident of Tribal lands, he or she lives on Tribal lands, as defined in 54.400(e);(iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days;(v) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service;(vi) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge;(vii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and(viii) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to § 54.405(e)(4). |
| #2 | 47 C.F.R. § 54.410(b)(1)(i) (2017) | Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section ... |
| #2 | <i>Wireline Competition Bureau Provides Guidance on Universal Forms For The Lifeline Program.</i> WC Docket No. 11-12. 2020-03294, February 20, 2018. | Beginning on July 1, 2018, ETCs using paper enrollment forms must use the FCC's universal Lifeline forms. ETCs enrolling Lifeline applicants with an electronic form must use exactly the same language used in the FCC's universal Lifeline forms. A Spanish language version of the form will be available on USAC's website, and ETCs should use that version for Spanish-speaking consumers. For other languages, direct translations of the FCC's universal Lifeline forms into other languages are acceptable. ETCs that claim Lifeline reimbursement for a subscriber whose enrollment or 60-day recertification notice period began on or after July 1, 2018 using noncompliant forms will be subject to repayments to the Fund and potential enforcement actions. |

This concludes the report

Attachment F

LI2019LR004

Available For Public Use

Vermont National Telephone Company Inc.

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2019LR004

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EXECUTIVE SUMMARY

March 26, 2021

Dawn Tucker
Vermont National Telephone Company Inc.
354 River St
Springfield VT, 05156

Dear Ms. Tucker:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Vermont National Telephone Company Inc. (Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers during the calendar year 2018, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States 2018 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 two detailed audit findings (Findings) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in blue ink, reading "Jeanette Santana-Gonzalez".

Jeanette Santana-Gonzalez
USAC Senior Director, Audit and Assurance Division

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

AUDIT RESULTS AND RECOVERY ACTION

| Audit Results | Monetary Effect (A) | Overlapping Exceptions ¹ (B) | Recommended Recovery (A) - (B) |
|---|---------------------|---|--------------------------------|
| Finding #1: C.F.R. § 54.417(a) – Inadequate Documentation: Subscriber Certification/Recertification and Eligibility Documentation The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of certification forms and proof of eligibility to demonstrate that subscribers completed the required certifications and presented the required eligibility documentation at application. | \$435 | \$0 | \$435 |
| Finding #2: 47 C.F.R. § 54.410(b)(1)(i) – Improper Certification/Recertification Completion The Beneficiary did not have adequate systems in place for collecting properly completed Lifeline certification/recertification forms from applicants and accurately recording the information into the National Lifeline Accountability Database (NLAD). | \$352 | \$93 | \$259 |
| Total Net Monetary Effect | \$787 | \$93 | \$694 |

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

¹ If the Beneficiary files an appeal and is successful, USAC will discontinue recovery efforts for the finding(s) that were resolved by the appeal decision. If there is overlapping recovery (*i.e.*, recovery that is included in two or more findings), the overlapping recovery will be recovered based on the finding(s) that were not resolved by the appeal decision.

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claim System (LCS) submissions for the calendar year 2018 (the audit period):

| SAC Number | State/Territory | Support Type | Number of Subscribers | Amount of Support |
|------------|-----------------|--------------|-----------------------|-------------------|
| 147332 | VT | Lifeline | 6,451 | \$59,673 |

Note: The amount of support reflects disbursements as of the commencement of the audit.

BACKGROUND

The Beneficiary is an incumbent eligible telecommunications carrier (ETC) that operates in the state/territory identified in the Scope table above.

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claim System

AAD obtained and examined the Beneficiary's LCS submission for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files. AAD used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the LCS submission and in NLAD or the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased subscribers.
- The data file contained transferred subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. AAD also requested certification and/or recertification documentation results and examined the documentation where provided for 120 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Lifeline Subscriber Discounts

AAD obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 60 subscribers.

D. Form 555

AAD obtained and examined the Beneficiary's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported to the Beneficiary's data files.

E. Minimum Service Standard

AAD obtained and examined the Beneficiary's evidence of the level of service provided for 60 subscribers to determine whether the Beneficiary provided eligible services that meet the minimum service standards and complied with the Rules.

DETAILED AUDIT FINDINGS**Finding #1:** 47 C.F.R. § 54.417(a) – Inadequate Documentation: Subscriber Certification/Recertification and Eligibility Documentation**CONDITION**

AAD obtained and examined certification and recertification forms and proof of eligibility for a non-statistical sample of 120 subscribers to determine whether the subscribers were eligible to receive the Lifeline program support claimed by the Beneficiary. While the Beneficiary provided certification and recertification forms, the Beneficiary did not provide the following requested documentation for five subscribers, as detailed below:

| Documentation | Number of Affected Subscriber Documentation |
|---|---|
| Name, social security number, and date of birth on Form do not agree to the eligible subscriber name, social security number, and date of birth per NLAD ² | 3 |
| Documentation to confirm Third Party Identity Verification (TPIV) flag ³ not provided ⁴ | 1 |
| The carrier did not provide a form for the enrollment into National Lifeline Accountability Database (NLAD) ⁵ | 1 |
| Total No. of Affected Subscribers | 5 |

Because the Beneficiary did not provide certification and eligibility documentation, AAD concludes the five subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.⁶

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of certification forms and proof of eligibility to demonstrate that subscribers completed the required certifications and presented the required eligibility documentation at application. The Beneficiary informed AAD that it was not familiar with the specifics of the applicable Rules prior to the audit.⁷

EFFECT

² AAD selected a non-statistical sample of 60 subscribers to test this attribute. Of the 60 subscribers, 13 forms were not tested because the subscribers discontinued Lifeline service before their anniversary date.

³ A TPIV flag occurs during the application process if Lifeline program cannot confirm the identity of the subscriber based upon the data provided the subscriber (i.e. first and last name, address, date of birth, or last four of social security number). To clear the TPIV flag, the beneficiary must collect documentation from the subscriber to resolve the error message and retain copies of what was examined.

⁴ *Id.*

⁵ AAD selected a non-statistical sample of 120 subscribers to test this attribute. Of the 120 subscribers, 27 forms were not tested because the subscribers discontinued Lifeline service before their anniversary date.

⁶ 47 C.F.R. §§54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) (2017).

⁷ Beneficiary response to audit inquiries, received Dec. 30, 2020.

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the five subscribers subsequent to the subscriber's Lifeline start date as noted in the National Lifeline Accountability Database (NLAD) until December 31, 2018. AAD identified a total of 47 such instances. AAD multiplied the 47 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25) rounded to the nearest whole dollar. AAD summarized the results below:

| Support Type | Monetary Effect & Recommended Recovery |
|-----------------------|--|
| Lifeline (Non-Tribal) | \$435 |

RECOMMENDATION

AAD recommends USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement policies, procedures and controls to ensure it retains adequate records to demonstrate compliance with the Rules for any subscribers that enrolled prior to the launch of the National Verifier system in the state. For subscribers that enrolled in the Lifeline program via the National Verifier, retention of viewed documents and forms will be the responsibility of USAC after system launch. In addition, 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-lifeline-program/>

BENEFICIARY RESPONSE

As a result of the audit findings we have implemented policies, procedures and controls to ensure that we retain adequate records to demonstrate compliance with the Rules. As of the date of this response, the entirety of the review of the subscribers' forms rests with the National Verifier and we are reliant upon their findings as to the validity of the information provided to us as a Beneficiary of the Lifeline Program. As a result of our reliance upon the National Verifier we feel that the errors found (mismatched social security numbers, missing TPIV information and missing enrolment forms) will no longer occur.

Finding #2: 47 C.F.R. § 54.410(b)(1)(i) – Improper Certification/Recertification Completion

CONDITION

AAD obtained and examined certification documentation for a non-statistical sample of 120 subscribers to determine whether the subscribers properly completed the certification form. Four subscribers failed to properly complete certain fields on the subscriber certification documentation as summarized below:

| Errors | No. of Affected Forms |
|---|-----------------------|
| The subscribers did not select whether the subscriber's address was | 3 |

| | |
|---|----------|
| temporary or permanent ⁸ | |
| Certification form dated subsequent to Lifeline start date ⁹ | 1 |
| Total No. of Affected Subscribers | 4 |

Because the subscribers did not properly complete the certification/recertification forms, AAD concludes the four subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have adequate systems in place for collecting properly completed Lifeline certification/recertification forms from applicants and accurately recording the information into the National Lifeline Accountability Database (NLAD). The Beneficiary informed AAD that it was not familiar with the specifics of the applicable Rules prior to the audit.¹⁰

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the four subscribers subsequent to the subscriber's Lifeline start date as noted in the NLAD until December 31, 2018. AAD identified a total of 28 such instances. AAD multiplied the 28 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25) rounded to the nearest whole dollar. AAD summarized the results below:

| Support Type | Monetary Effect (A) | Overlapping Exceptions (B) | Recommended Recovery¹¹ (A) – (B) |
|-----------------------|----------------------------|-----------------------------------|--|
| Lifeline (Non-Tribal) | \$352 | \$93 | \$259 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement policies, procedures and controls to ensure that it complies with Lifeline program rules. USAC designed the National Verifier system to ensure that subscribers who enroll in the Lifeline program properly complete the Lifeline Application Form after the system has been launched in the state. In addition, the Beneficiary may learn more about Lifeline subscriber certification disclosure requirements on USAC's website at <https://www.usac.org/about/appeals-audits/beneficiary-and->

⁸ AAD selected a non-statistical sample of 120 subscribers to test this attribute. Of the 120 subscribers, 27 forms were not tested because the subscribers discontinued Lifeline service before their anniversary date and one subscriber did not complete a certification form, which it is included in Finding #1 – Inadequate Documentation: Subscriber Certification/Recertification and Eligibility Documentation.

⁹ AAD selected a non-statistical sample of 60 subscribers to test this attribute. Of the 60 subscribers, 13 forms were not tested because the subscribers discontinued Lifeline service before their anniversary date.

¹⁰ Beneficiary response to audit inquiries, received Dec. 18, 2020.

¹¹ To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$93 overlaps with the recommended recovery in Findings #1– Inadequate Documentation: Subscriber Certification/Recertification and Eligibility Documentation.

[contributor-audit-program-bcap/common-audit-findings-lifeline-program/](#).

BENEFICIARY RESPONSE

As a result of the audit findings we have implemented policies, procedures and controls to ensure that we, where applicable, review subscribers' certification forms for accuracy and completeness. As of the date of this response, the entirety of the review of the subscribers' forms rests with the National Verifier and we are reliant upon their findings as to the validity of the information provided to us as a Beneficiary of the Lifeline Program. We believe that this reliance upon the National Verifier will mitigate the errors found.

CRITERIA

| Finding | Criteria | Description |
|---------|----------------------------------|--|
| #1 | 47 C.F.R. § 54.417(a) (2017) | Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years. |
| #1 | 47 C.F.R. § 54.404(b)(11) (2017) | All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or investigations or to the extent required by NLAD processes, which require, <i>inter alia</i> , verification of eligibility, identity, address, and age. |
| #1 | 47 C.F.R. § 54.410(b) (2017) | <p>Initial income-based eligibility determination.</p> <p>(1) Except where the National Verifier, state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline using the income-based eligibility criteria provided for in § 54.409(a)(1) an eligible telecommunications carrier:</p> <p>(i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's income-based eligibility using the following procedures:</p> <p>(A) If an eligible telecommunications carrier can determine a prospective subscriber's income-based eligibility by accessing one or more databases containing information regarding the subscriber's income ("income databases"), the eligible telecommunications carrier must access such income databases and determine whether the prospective subscriber qualifies for Lifeline.</p> <p>(B) If an eligible telecommunications carrier cannot determine a prospective subscriber's income-based eligibility by accessing income databases, the eligible telecommunications carrier must review documentation that establishes that the prospective subscriber meets the income-eligibility criteria set forth in § 54.409(a)(1). Acceptable documentation of income eligibility includes the prior year's state, federal, or Tribal tax return; current income statement from an employer or paycheck stub; a Social Security statement of benefits; a Veterans Administration statement of benefits; a retirement/pension statement of benefits; an Unemployment/Workers' Compensation statement of benefit; federal or Tribal notice letter of participation in General Assistance; or a divorce decree, child support award, or other official document containing income information. If the prospective</p> |

| Finding | Criteria | Description |
|---------|------------------------------|---|
| | | <p>subscriber presents documentation of income that does not cover a full year, such as current pay stubs, the prospective subscriber must present the same type of documentation covering three consecutive months within the previous twelve months.</p> <p>(ii) Must securely retain copies of documentation demonstrating a prospective subscriber's income-based eligibility for Lifeline consistent with § 54.417, except to the extent such documentation is retained by the National Verifier.</p> <p>(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, an eligible telecommunications carrier must not seek reimbursement for providing Lifeline service to a subscriber, based on that subscriber's income eligibility, unless the carrier has received from the National Verifier, state Lifeline administrator, or other state agency:</p> <p>(i) Notice that the prospective subscriber meets the income-eligibility criteria set forth in § 54.409(a)(1); and</p> <p>(ii) If a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, a copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section.</p> <p>(iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.</p> |
| 1# | 47 C.F.R. § 54.410(c) (2017) | <p>Initial program-based eligibility determination.</p> <p>(1) Except in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in § 54.409(a)(2) or (b), an eligible telecommunications carrier:</p> <p>(i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility using the following procedures:</p> <p>(A) If the eligible telecommunications carrier can determine a prospective subscriber's program-based eligibility for Lifeline by accessing one or more databases containing information regarding enrollment in qualifying assistance programs ("eligibility databases"), the eligible telecommunications carrier must access such eligibility databases to determine whether the prospective subscriber qualifies for Lifeline based on participation in a qualifying assistance program; or</p> <p>(B) If an eligible telecommunications carrier cannot determine a prospective subscriber's program-based eligibility for Lifeline by accessing eligibility databases, the eligible telecommunications carrier must review</p> |

| Finding | Criteria | Description |
|---------|------------------------------|---|
| | | <p>documentation demonstrating that a prospective subscriber qualifies for Lifeline under the program-based eligibility requirements. Acceptable documentation of program eligibility includes the current or prior year's statement of benefits from a qualifying assistance program, a notice or letter of participation in a qualifying assistance program, program participation documents, or another official document demonstrating that the prospective subscriber, one or more of the prospective subscriber's dependents or the prospective subscriber's household receives benefits from a qualifying assistance program.</p> <p>(ii) Must securely retain copies of the documentation demonstrating a subscriber's program-based eligibility for Lifeline, consistent with § 54.417, except to the extent such documentation is retained by the National Verifier.</p> <p>(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based eligibility criteria provided in § 54.409(a)(2) or (b), an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received from the National Verifier, state Lifeline administrator or other state agency:</p> <p>(i) Notice that the subscriber meets the program-based eligibility criteria set forth in § 54.409(a)(2) or (b); and</p> <p>(ii) If a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, a copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section.</p> <p>(iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.</p> |
| #1 | 47 C.F.R. § 54.410(d) (2017) | <p>Eligibility certification form.</p> <p>Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program.</p> <p>(1) The form provided by the entity enrolling subscribers must provide the information in paragraphs (d)(1)(i) through (vi) of this section:</p> |

| Finding | Criteria | Description |
|---------|----------|--|
| | | <p>(i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program;</p> <p>(ii) Only one Lifeline service is available per household;</p> <p>(iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses;</p> <p>(iv) A household is not permitted to receive Lifeline benefits from multiple providers;</p> <p>(v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program; and</p> <p>(vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person.</p> <p>(2) The form provided by the entity enrolling subscribers must require each prospective subscriber to provide the information in paragraphs (d)(2)(i) through (viii) of this section:</p> <p>(i) The subscriber's full name;</p> <p>(ii) The subscriber's full residential address;</p> <p>(iii) Whether the subscriber's residential address is permanent or temporary;</p> <p>(iv) The subscriber's billing address, if different from the subscriber's residential address;</p> <p>(v) The subscriber's date of birth;</p> <p>(vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number;</p> <p>(vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; and</p> <p>(viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in § 54.409, the number of individuals in his or her household.</p> <p>(3) The form provided by the entity enrolling subscribers shall require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury:</p> |

| Finding | Criteria | Description |
|---------|------------------------------|--|
| | | <p>(i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in § 54.409;</p> <p>(ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit.</p> <p>(iii) If the subscriber is seeking to qualify for Lifeline as an eligible resident of Tribal lands, he or she lives on Tribal lands, as defined in 54.400(e);</p> <p>(iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days;</p> <p>(v) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service;</p> <p>(vi) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge,</p> <p>(vii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and</p> <p>(viii) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to § 54.405(e)(4).</p> |
| #1 | 47 C.F.R. § 54.410(f) (2017) | <p>Annual eligibility re-certification process.</p> <p>(1) All eligible telecommunications carriers must annually re-certify all subscribers, except for subscribers in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the annual re-certification of subscribers' Lifeline eligibility.</p> <p>(2) In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by:</p> <p>(i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or</p> <p>(ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review.</p> <p>(iii) If the subscriber's program-based or income-based eligibility for Lifeline cannot be determined by accessing one or more eligibility databases, then the eligible</p> |

| Finding | Criteria | Description |
|---------|----------|--|
| | | <p>telecommunications carrier must obtain a signed certification from the subscriber confirming the subscriber's continued eligibility. If the subscriber's eligibility was previously confirmed through an eligibility database during enrollment or a prior recertification and the subscriber is no longer included in any eligibility database, the eligible telecommunications carrier must obtain both an Annual Recertification Form and documentation meeting the requirements of paragraph (b)(1)(i)(B) or (c)(1)(i)(B) from that subscriber to complete the process. Eligible telecommunications carriers must use the Wireline Competition Bureau-approved universal Annual Recertification Form, except where state law, state regulation, a state Lifeline administrator, or a state agency requires eligible telecommunications carriers to use state-specific Lifeline recertification forms.</p> <p>(iv) In states in which the National Verifier has been implemented, the eligible telecommunications carrier cannot re-certify subscribers not found in the National Verifier by obtaining a certification form from the subscriber.</p> <p>(3) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of a subscriber's Lifeline eligibility, the National Verifier, state Lifeline administrator, or state agency must confirm a subscriber's current eligibility to receive a Lifeline service by:</p> <p>(i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or</p> <p>(ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review.</p> <p>(iii) If the subscriber's program-based or income-based eligibility for Lifeline cannot be determined by accessing one or more eligibility databases, then the National Verifier, state Lifeline administrator, or state agency must obtain a signed certification from the subscriber confirming the subscriber's continued eligibility. If the subscriber's eligibility was previously confirmed through an eligibility database during enrollment or a prior recertification and the subscriber is no longer included in any eligibility database, the National Verifier, state Lifeline administrator, or state agency must obtain both an approved Annual Recertification Form and documentation meeting the requirements of paragraph (b)(1)(i)(B) or (c)(1)(i)(B) from that subscriber to complete the certification process. Entities responsible for re-certification under this section must use the Wireline Competition Bureau-approved universal Annual Recertification Form, except where state law, state regulation, a state Lifeline administrator, or a state agency requires eligible telecommunications carriers to use state-specific Lifeline recertification forms, or where the National Verifier Recertification Form is required.</p> <p>(4) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of subscribers' Lifeline eligibility, the National Verifier, state Lifeline administrator, or other state agency must provide to each eligible</p> |

| Finding | Criteria | Description |
|---------|------------------------------------|---|
| | | <p>telecommunications carrier the results of its annual re-certification efforts with respect to that eligible telecommunications carrier's subscribers.</p> <p>(5) If an eligible telecommunications carrier is unable to re-certify a subscriber or has been notified by the National Verifier, a state Lifeline administrator, or other state agency that it is unable to re-certify a subscriber, the eligible telecommunications carrier must comply with the de-enrollment requirements provided for in § 54.405(e)(4).</p> |
| #2 | 47 C.F.R. § 54.410(b)(1)(i) (2017) | Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section. |

****This concludes the report****

Summary of Lifeline Support Mechanism Beneficiary Audit Report Released: November 2021

| Entity Name | Number of Findings | Significant Findings | Amount of Support | Monetary Effect | USAC Management Recovery Action* | Entity Disagreement |
|---|--------------------|--|-------------------|-----------------|----------------------------------|---------------------|
| Duo County Telephone Cooperative Attachment G | 5 | <ul style="list-style-type: none"> No significant findings. | \$39,306 | \$3,701 | \$2,979 | Y |
| Total | 5 | | \$39,306 | \$3,701 | \$2,979 | |

*The USAC Management Recovery Action is less than the Monetary Effect to prevent double-recovery for the same subscriber identified in multiple findings.

Attachment G

LI2019LR002

Available For Public Use

Duo County Telephone Cooperative

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Lifeline Support Mechanism Rules

USAC Audit No. LI2019LR002

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EXECUTIVE SUMMARY

October 4, 2021

Daryl Hammond
VP/CFO
Duo County Telecom
2150 North Main Street
Jamestown, KY 42629

Dear Mr. Hammond:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Duo County Telephone Cooperative (Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers during the calendar year 2018, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the 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 scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 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 five detailed audit findings (Findings) 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.

USAC may have omitted certain information 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 Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,



Jeanette Santana-González
Senior Director, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Pamela Hughet, USAC Vice President, Lifeline Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

AUDIT RESULTS AND RECOVERY ACTION

| Audit Results | Monetary Effect (A) | Overlapping Exceptions ¹ (B) | Recommended Recovery (A) - (B) |
|---|------------------------|---|--------------------------------------|
| Finding #1: 47 C.F.R. § 54.405(e)(4) – Improper Re-certification Process: Failure to De-enroll. The Beneficiary failed to de-enroll subscribers after they failed re-certification. | \$1,508 | \$0 | \$1,508 |
| Finding #2: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification and Eligibility Documentation. The Beneficiary could not provide requested certification and eligibility documentation | \$675 | \$0 | \$675 |
| Finding #3: 47 C.F.R. §§ 54.410(c) and (d) – Improper Certification Documentation Disclosures and Eligibility Criteria. The certification forms used by the Beneficiary did not contain the required disclosures and contained incorrect eligibility criteria. | \$722 | \$231 | \$491 |
| Finding #4: 47 C.F.R. § 54.410(b)(1)(i) – Improper Certification Completion. The Beneficiary failed to ensure certification forms were properly completed. | \$500 | \$213 | \$287 |
| Finding #5: 47 C.F.R. § 54.410(d) – Failure to Use the Lifeline Application Form. The Beneficiary failed to use the FCC standard Lifeline application. | \$296 | \$278 | \$18 |
| Total Net Monetary Effect | \$3,701 | \$722 | \$2,979 |

USAC MANAGEMENT RESPONSE

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

¹ If the Beneficiary files an appeal and is successful, USAC will discontinue recovery efforts for the finding(s) that were resolved by the appeal decision. If there is overlapping recovery (i.e., recovery that is included in two or more findings), the overlapping recovery will be recovered based on the finding(s) that were not resolved by the appeal decision.

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 Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the calendar year 2018 (the audit period):

| SAC Number | State/Territory | Support Type | Number of Claims | Amount of Support |
|--------------|-----------------|--------------|------------------|-------------------|
| 260401 | KY | Lifeline | 4,174 | \$38,613 |
| 269005 | KY | Lifeline | 75 | \$693 |
| Total | | | 4,249 | \$39,306 |

Note: The amount of support reflects disbursements as of the commencement of the audit.

BACKGROUND

The Beneficiary is an incumbent eligible telecommunications carrier (ETC) that operates in the state identified in the Scope table above.

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

AAD obtained and examined the Beneficiary's LCS submissions for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files. AAD used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the LCS submission and in NLAD or the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased subscribers.
- The data file contained transferred subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied

with the FCC Rules. AAD also requested certification and/or recertification documentation or National Verifier results for 56 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Lifeline Subscriber Discounts

AAD obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 58 subscribers.

D. Form 555

AAD obtained and examined the Beneficiary's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported to the Beneficiary's data files.

E. Minimum Service Standards

AAD obtained and examined the Beneficiary's evidence of the level of service provided for 58 subscribers to determine whether the Beneficiary provided eligible services that meet the minimum service standards and complied with the FCC Rules.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.405(e)(4) – Improper Re-certification Process: Failure to De-enroll

CONDITION

AAD obtained and examined the USAC re-certification results for 104 subscribers that were provided to the Beneficiary for 2017 and 2018 to determine whether the Beneficiary de-enrolled subscribers who failed to re-certify their continued eligibility. The Beneficiary did not de-enroll 13 subscribers (12 subscribers from SAC 260401 and one subscriber from SAC 269005) who failed to re-certify in 2017, and one subscriber (from SAC 260401) who failed to re-certify in 2018. Because the Beneficiary did not de-enroll the subscribers who failed to re-certify their continued eligibility, AAD concludes the 14 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to maintain an accurate subscriber listing in NLAD for Lifeline program purposes. The Beneficiary informed AAD that the failure to de-enroll subscribers was an error on the company's part.²

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 14 subscribers after the Beneficiary was notified of the subscribers' recertification failure. AAD identified a total of 163 such instances. AAD multiplied the 163 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25), rounded to the nearest whole dollar. AAD summarized the results below:

| Study Area Code | Support Type | Monetary Effect and Recommended Recovery |
|-----------------|-----------------------|--|
| 260401 | Lifeline (Non-Tribal) | \$1,360 |
| 269005 | Lifeline (Non-Tribal) | \$148 |
| Total | | \$1,508 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement policies, procedures and controls to ensure it de-enrolls subscribers who fail to re-certify their continued eligibility. In addition, 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-lifeline-program/>.

BENEFICIARY RESPONSE

Duo County erroneously missed these subscribers. The de-enrollment process now goes through

² Beneficiary response to audit inquiries, received Sep. 29, 2020.

USAC. USAC will notify the subscriber via mail within 2-3 business days after a subscriber's window closes and will be automatically de-enrolled from NLAD five (5) business days after the conclusion of their recertification window. After the de-enrollment has occurred, NLAD will send an automated email to notify the service provider and the Failed Recertification De-enroll Report will be updated. The process is now handled through the National Verifier system and the service provider is no longer involved so this issue should not be a problem going forward.

Finding #2: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification and Eligibility Documentation

CONDITION

AAD requested certification forms and proof of eligibility for a non-statistical sample of 56 subscribers, of which 24 subscribers were re-certified by USAC and not included in this testwork. The remaining 32 subscribers were certified by the Beneficiary and were tested to determine whether the subscribers were eligible to receive the Lifeline program support claimed by the Beneficiary. The Beneficiary did not provide the requested documentation for 10 of 32 subscribers from SAC 260401, as detailed below:

| Documentation | Number of Affected Subscriber Documents |
|--|---|
| Certification form not provided | 4 |
| Documentation to confirm Third Party Identity Verification (TPIV) flag ³ not provided | 5 |
| Copy of subscriber's proof of eligibility not provided | 1 |
| Total No. of Affected Subscribers | 10 |

Because the Beneficiary did not provide certification and eligibility documentation as required by the FCC Rules, AAD concludes the 10 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.⁴

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of certification forms and proof of eligibility to demonstrate that subscribers completed the required certifications and presented the required eligibility documentation during the application process. The Beneficiary informed AAD that this was an employee training issue.⁵

³ A TPIV flag occurs during the application process if the Lifeline program cannot confirm the identity of the subscriber based upon the data provided the subscriber (i.e., first and last name, address, date of birth, or last four digits of the social security number). To clear the TPIV flag, the beneficiary must collect documentation from the subscriber to resolve the error message and retain copies of what documentation was examined.

⁴ 47 C.F.R. §§ 54.404(b)(11), 54.410(b), 54.410(c), 54.410(d), and 54.410(f).

⁵ Beneficiary response to audit inquiries, received Sept. 29, 2020.

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 10 subscribers subsequent to the subscriber's Lifeline start date noted in NLAD until December 31, 2018. AAD identified a total of 73 such instances. AAD multiplied the 73 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25) rounded to the nearest whole dollar. AAD summarized the results below:

| Study Area Code | Support Type | Monetary Effect and Recommended Recovery |
|-----------------|-----------------------|--|
| 260401 | Lifeline (Non-Tribal) | \$675 |
| 269005 | Lifeline (Non-Tribal) | \$0 |
| Total | | \$675 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the amount identified in the Effect section above. The Beneficiary must implement policies, procedures and controls to ensure it retains adequate records to demonstrate compliance with the FCC Rules. In addition, 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-lifeline-program/>.

BENEFICIARY RESPONSE

Duo County staff needed more training on the Lifeline process which can be cumbersome for a small ILEC where staff juggles multiple duties. The application process is now run through the National Verifier system and the service provider is no longer involved so this issue should not be a problem going forward.

Finding #3: 47 C.F.R. §§ 54.410(c) and (d) – Improper Certification Documentation Disclosures and Eligibility Criteria

CONDITION

AAD obtained and examined certification documentation for a non-statistical sample of 32 subscribers, of which 13 subscribers were re-certified by USAC and not included in this testwork, and six subscribers were tested and included in the Lack of Documentation: Subscriber Certification and Eligibility Documentation Audit Finding. The remaining 13 subscribers were certified by the Beneficiary and were tested to determine whether the certification documentation included the proper disclosures and the subscriber completed the required certifications. For all 13 subscribers, the Beneficiary used one of three different certification forms that omitted disclosures and contained incorrect eligibility criteria as identified below:

| Omitted Disclosures and Incorrect Eligibility Criteria | No. of Affected Subscriber Certification Documents |
|---|--|
| 47 C.F.R. § 54.410(d)(1)(i) – (v): (i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program; (ii) Only one Lifeline service is available per household; | 5 |

| | |
|---|----|
| <p>(iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses;</p> <p>(iv) A household is not permitted to receive Lifeline benefits from multiple providers;</p> <p>(v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program;</p> <p><u>47 C.F.R. § 54.410(d)(2)(iii) – (v):</u></p> <p>(iii) Whether the subscriber's residential address is permanent or temporary;</p> <p>(iv) The subscriber's billing address, if different from the subscriber's residential address;</p> <p>(v) The subscriber's date of birth;</p> <p><u>47 C.F.R. § 54.410(d)(3)(i) –(ii):</u></p> <p>(i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in §54.409;</p> <p>(ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit.</p> <p><u>47 C.F.R. § 54.410(d)(3)(iv) - (vii):</u></p> <p>(iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days;</p> <p>(v) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service;</p> <p>(vi) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge,</p> <p>(vii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law;</p> | |
| <p><u>47 C.F.R. § 54.410(d)(3)(viii):</u></p> <p>(viii) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to §54.405(e)(4).</p> | 13 |
| <p>47 C.F.R. § 54.409(a)(2):</p> <p>(a) To constitute a qualifying low-income consumer:</p> <p>(2) The consumer, one or more of the consumer's dependents, or the consumer's household must receive benefits from one of the following federal assistance programs: Medicaid; Supplemental Nutrition Assistance Program; Supplemental Security Income; Federal Public Housing Assistance; or Veterans and Survivors Pension Benefit.</p> | 8 |

| | |
|---|-----------|
| The certification form used did not include the correct eligibility programs. The two form versions included some combination of LIHEAP, NSLP, TANF, K-TAP and Kinship Care. The forms did not include the Veterans and Survivors Benefit. In addition, the income guidelines were not updated for 2018. | |
| 47 C.F.R. § 54.409(a)(1): (a) To constitute a qualifying low-income consumer: (1) A consumer's household income as defined in §54.400(f) must be at or below 135% of the Federal Poverty Guidelines for a household of that size; The certification form used included income guidelines that were not updated for 2018 levels. | 5 |
| Total No. of Affected Subscribers⁶ | 13 |

The Beneficiary must list all of the required disclosures on the subscriber certification documentation. Because the certification documentation did not contain all the required language and eligibility criteria stipulated in the FCC Rules, the subscribers did not complete the required certifications. Therefore, AAD concludes the 13 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules governing its compliance with the required disclosures. The Beneficiary indicated that the outdated forms had erroneously been used. Further, the Beneficiary stated that all current applicants are directed to the Lifeline Application Form via a link on their website.⁷

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 13 subscribers subsequent to the subscriber's Lifeline start date noted in NLAD until December 31, 2018. AAD identified a total of 78 such instances. AAD multiplied the 78 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25) rounded to the nearest whole dollar. AAD summarized the results below:

| Study Area Code | Support Type | Monetary Effect (A) | Overlapping Exceptions (B) | Recommended Recovery ⁸ (A) - (B) |
|-----------------|-----------------------|---------------------|----------------------------|---|
| 260401 | Lifeline (Non-Tribal) | \$722 | \$231 | \$491 |
| 269005 | Lifeline (Non-Tribal) | \$0 | \$0 | \$0 |
| Total | | | | \$491 |

⁶ Documentation for each subscriber certification may omit multiple disclosures or eligibility criteria. Therefore, one certification may be included in multiple rows in the table above.

⁷ Beneficiary response to audit inquiries, received Jul. 13, 2020.

⁸ To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$231 overlaps with the recommended recovery in Finding #2.

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amount identified in the Effect section above. In addition, USAC Management should consider whether additional recovery is warranted given the high error rate observed during our testing.

The Beneficiary must implement policies, procedures and controls to ensure it continues to employ the use of the Lifeline Application Form to obtain the proper certifications from its subscribers. AAD also recommends that the Beneficiary examine the FCC Rules detailed in the Criteria section of this report to familiarize itself with the FCC Rules related to required disclosures that must be included in subscriber certification documentation. Further, the Beneficiary may learn more about Lifeline subscriber certification disclosure requirements on USAC's website at <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/>.

BENEFICIARY RESPONSE

Duo County erroneously used an older version of the form but these customers were shown to be eligible so we do not agree with the monetary impact. This is a process finding and we don't think Duo County should have to pay back this money. The application process is now run through the National Verifier system and the service provider is no longer involved so this issue should not be a problem going forward.

AAD RESPONSE

The Beneficiary states in its response that "...these customers were shown to be eligible so we do not agree with the monetary impact. This is a process finding and we don't think Duo County should have to pay back this money." However, the FCC Rules require that the necessary disclosures are included on the certification and recertification forms and the subscribers must complete the required certifications. As noted in the Condition section above, the certification forms utilized by the Beneficiary did not contain the required disclosures; therefore, the subscribers did not complete the required certifications. Thus, our position on this finding remains unchanged.

Finding #4: 47 C.F.R. § 54.410(b)(1)(i) – Improper Certification Completion

CONDITION

AAD obtained and examined certification documentation for a non-statistical sample of 56 subscribers, of which 24 subscribers were re-certified by USAC and not included in this testwork, and 7 subscribers were included in the Lack of Documentation: Subscriber Certification and Eligibility Documentation Detailed Audit Finding. The remaining 25 subscribers were re-certified by the Beneficiary and were tested to determine whether the subscribers properly completed the certification form. For 10 of the 25 samples (from SAC 260401), the subscribers failed to properly complete certain fields on the subscriber certification documentation, as detailed below:

| Omitted Fields ⁹ | No. of Affected Forms |
|---|-----------------------|
| Date of Birth (DOB) and/or Last four digits of the social security number | 4 |
| The program for which the subscriber claimed eligibility | 1 |
| Initials for required fields | 2 |
| A complete address | 1 |
| Date the certification/recertification form was completed | 2 |
| Errors | |
| Certification form dated subsequent to Lifeline start date | 1 |
| DOB on certification form did not match DOB in NLAD | 1 |
| Total No. of Affected Subscribers¹⁰ | 10 |

Because the subscribers did not properly complete the certification/recertification forms, AAD concludes the 10 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have adequate systems in place for collecting properly completed Lifeline certification/recertification forms from applicants and accurately recording the information into NLAD. The Beneficiary informed AAD that the cause was due to inadequate employee training on document reviews.¹¹

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 10 subscribers subsequent to the subscriber's Lifeline start date noted in NLAD until December 31, 2018. AAD identified a total of 54 such instances. AAD multiplied the 54 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25) rounded to the nearest whole dollar. AAD summarized the results below:

| Study Area Code | Support Type | Monetary Effect (A) | Overlapping Exceptions (B) | Recommended Recovery ¹² (A) - (B) |
|-----------------|-----------------------|---------------------|----------------------------|--|
| 260401 | Lifeline (Non-Tribal) | \$500 | \$213 | \$287 |
| 269005 | Lifeline (Non-Tribal) | \$0 | \$0 | \$0 |
| Total | | | | \$287 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amount identified in the Effect section above. The Beneficiary must implement policies, procedures and controls to ensure that it reviews subscribers' certification forms for accuracy and completeness. In addition, the Beneficiary may learn more about Lifeline subscriber certification disclosure requirements on USAC's website at

<https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common->

⁹ See 47 C.F.R. § 54.410(d).

¹⁰ Documentation for some subscribers may contain multiple exceptions. Therefore, one certification may be included in multiple rows in the table above.

¹¹ Beneficiary response to audit inquiries, received Sep. 29, 2020.

¹² To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$213 overlaps with the recommended recovery in Finding #2.

[audit-findings-lifeline-program/](#).

BENEFICIARY RESPONSE

The issue may have occurred due to more training needed on reviewing applications completed. However, we believe that these customers were eligible for Lifeline and therefore we don't think there should be a monetary effect. The application process is now run through the National Verifier system and the service provider is no longer involved so this issue should not be a problem going forward.

AAD RESPONSE

The Beneficiary states in its response that "... these customers were eligible for Lifeline and therefore we don't think there should be a monetary effect." However, the FCC Rules require that the forms be properly and accurately completed. As noted in the Condition section above, the forms were not properly or accurately completed; therefore, the subscribers did not complete the required forms. Thus, our position on this finding remains unchanged.

Finding #5: 47 C.F.R. § 54.410(d) – Failure to Use the Lifeline Application Form

CONDITION

AAD obtained and examined certification documentation for a non-statistical sample of 56 subscribers, of which 11 subscribers were enrolled in the Lifeline Program on or after July 1, 2018 and were required to use the Lifeline Application Form,¹³ to determine whether the Beneficiary used the FCC Form 5629 Lifeline Application Form (Application Form) to enroll these subscribers. The Beneficiary continued using its own Lifeline form (Duo County Telephone Lifeline Initial Enrollment Form) it developed in 2015, and later modified in 2017. The Beneficiary did not use the Application Form to enroll all 11 of these subscribers from SAC 260401. Therefore, AAD concludes the 11 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules governing its compliance with the required disclosures or the requirement to use the Application Form. The Beneficiary indicated that the outdated forms had erroneously been used. Further, the Beneficiary stated that all current applicants are directed to the Application Form via a link on their website.¹⁴

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 11 subscribers subsequent to the subscriber's Lifeline start date

¹³ See *Wireline Competition Bureau Provides Guidance on Universal Forms For The Lifeline Program*, WC Docket No. 11-42, Public Notice, 33 FCC Rcd 1920 (WCB 2018). See also *Lifeline and Link Up Reform and Modernization et al.*, Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962, 4006, para. 126 (2016).

¹⁴ Beneficiary response to audit inquiries, received Jul. 13, 2020. (<https://duobroadband.com/home-telephone/lifeline-discount>)

noted in NLAD until December 31, 2018. AAD identified a total of 32 such instances. AAD multiplied the 32 instances by the Lifeline support amount reimbursed to the Beneficiary (\$9.25) rounded to the nearest whole dollar. AAD summarized the results below:

| Study Area Code | Support Type | Monetary Effect (A) | Overlapping Exceptions (B) | Recommended Recovery ¹⁵ (A) - (B) |
|-----------------|-----------------------|---------------------|----------------------------|--|
| 260401 | Lifeline (Non-Tribal) | \$296 | \$278 | \$18 |
| 269005 | Lifeline (Non-Tribal) | \$0 | \$0 | \$0 |
| Total | | | | \$18 |

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amount identified in the Effect section above. In addition, USAC Management should consider whether additional recovery is warranted given the high error rate observed during our testing. The Beneficiary must implement policies, procedures, and controls to ensure it continues to employ the use of the Application Form to obtain the proper certifications from its subscribers. In addition, the Beneficiary may learn more about Lifeline subscriber certification disclosure requirements on USAC's website at <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/>.

BENEFICIARY RESPONSE

Duo County staff needed more training on the Lifeline process which can be cumbersome for a small ILEC where staff juggles multiple duties. The application process is now run through the National Verifier system and the service provider is no longer involved so this issue should not be a problem going forward.

¹⁵ To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that \$278 overlaps with the recommended recovery in Findings #2, #3, and #4.

CRITERIA

| Finding | Criteria | Description |
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| #1 | 47 C.F.R. § 54.405(e)(4) (2018) | De-enrollment for failure to re-certify. [A]n eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier's attempts to obtain re-certification of the subscriber's continued eligibility as required by § 54.410(f); or who fails to provide the annual one-per-household re-certifications as required by § 54.410(f). |
| #2 | 47 C.F.R. § 54.417(a) (2018) | Recordkeeping requirements. Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years. |
| #2 | 47 C.F.R. § 54.404(b)(11) (2018) | The National Lifeline Accountability Database. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: (11) All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or investigations or to the extent required by NLAD processes, which require, <i>inter alia</i> , verification of eligibility, identity, address, and age. |
| #2 | 47 C.F.R. § 54.410(b) (2018) | Initial income-based eligibility determination. (1) Except where the National Verifier, state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline using the income-based eligibility criteria provided for in §54.409(a)(1) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's income-based eligibility using the following procedures: (A) If an eligible telecommunications carrier can determine a prospective subscriber's income-based eligibility by accessing one or more databases containing information regarding the subscriber's income ("income databases"), the eligible telecommunications carrier must access such income databases and determine whether the prospective subscriber qualifies for Lifeline. |

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| | | <p>(B) If an eligible telecommunications carrier cannot determine a prospective subscriber's income-based eligibility by accessing income databases, the eligible telecommunications carrier must review documentation that establishes that the prospective subscriber meets the income-eligibility criteria set forth in §54.409(a)(1). Acceptable documentation of income eligibility includes the prior year's state, federal, or Tribal tax return; current income statement from an employer or paycheck stub; a Social Security statement of benefits; a Veterans Administration statement of benefits; a retirement/pension statement of benefits; an Unemployment/Workers' Compensation statement of benefit; federal or Tribal notice letter of participation in General Assistance; or a divorce decree, child support award, or other official document containing income information. If the prospective subscriber presents documentation of income that does not cover a full year, such as current pay stubs, the prospective subscriber must present the same type of documentation covering three consecutive months within the previous twelve months.</p> <p>(ii) Must securely retain copies of documentation demonstrating a prospective subscriber's income-based eligibility for Lifeline consistent with §54.417, except to the extent such documentation is retained by the National Verifier.</p> <p>(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, an eligible telecommunications carrier must not seek reimbursement for providing Lifeline service to a subscriber, based on that subscriber's income eligibility, unless the carrier has received from the National Verifier, state Lifeline administrator, or other state agency:</p> <p>(i) Notice that the prospective subscriber meets the income-eligibility criteria set forth in § 54.409(a)(1); and</p> <p>(ii) A copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section.</p> <p>(iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.</p> |
| #2 | 47 C.F.R. § 54.410(f) (2018) | <p>Annual eligibility re-certification process.</p> <p>(1) All eligible telecommunications carriers must annually re-certify all subscribers, except for subscribers in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the annual re-certification of subscribers' Lifeline eligibility.</p> |

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| | | <p>(2) In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by:</p> <ul style="list-style-type: none"> (i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or (ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review. (iii) If the subscriber's program-based or income-based eligibility for Lifeline cannot be determined by accessing one or more state databases containing information regarding enrollment in qualifying assistance programs, then the eligible telecommunications carrier may obtain a signed certification from the subscriber on a form that meets the certification requirements in paragraph (d) of this section. If a Federal eligibility recertification form is available, entities enrolling subscribers must use such form to re-certify a qualifying low-income consumer. (iv) In states in which the National Verifier has been implemented, the eligible telecommunications carrier cannot re-certify subscribers not found in the National Verifier by obtaining a certification form from the subscriber. <p>(3) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of a subscriber's Lifeline eligibility, the National Verifier, state Lifeline administrator, or state agency must confirm a subscriber's current eligibility to receive a Lifeline service by:</p> <ul style="list-style-type: none"> (i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or (ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review. (iii) If the subscriber's eligibility for Lifeline cannot be determined by accessing one or more databases containing information regarding enrollment in qualifying assistance programs, then the National Verifier, state Lifeline administrator, or state agency may obtain a signed certification from the subscriber on a form that meets the certification requirements in paragraph (d) of this section. If a Federal eligibility recertification form is available, entities enrolling subscribers must use such form to re-certify a qualifying low-income consumer. |
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| | | <p>(4) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of subscribers' Lifeline eligibility, the National Verifier, state Lifeline administrator, or other state agency must provide to each eligible telecommunications carrier the results of its annual re-certification efforts with respect to that eligible telecommunications carrier's subscribers.</p> <p>(5) If an eligible telecommunications carrier is unable to re-certify a subscriber or has been notified by the National Verifier, a state Lifeline administrator, or other state agency that it is unable to re-certify a subscriber, the eligible telecommunications carrier must comply with the de-enrollment requirements provided for in § 54.405(e)(4).</p> |
| #2, 3, 4 | 47 C.F.R. § 54.410(c) (2018) | <p><i>Initial program-based eligibility determination.</i></p> <p>(1) Except in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in § 54.409(a)(2) or (b), an eligible telecommunications carrier:</p> <p>(i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility using the following procedures:</p> <p>(A) If the eligible telecommunications carrier can determine a prospective subscriber's program-based eligibility for Lifeline by accessing one or more databases containing information regarding enrollment in qualifying assistance programs ("eligibility databases"), the eligible telecommunications carrier must access such eligibility databases to determine whether the prospective subscriber qualifies for Lifeline based on participation in a qualifying assistance program; or</p> <p>(B) If an eligible telecommunications carrier cannot determine a prospective subscriber's program-based eligibility for Lifeline by accessing eligibility databases, the eligible telecommunications carrier must review documentation demonstrating that a prospective subscriber qualifies for Lifeline under the program-based eligibility requirements. Acceptable documentation of program eligibility includes the current or prior year's statement of benefits from a qualifying assistance program, a notice or letter of participation in a qualifying assistance program, program participation documents, or another official document demonstrating that the prospective subscriber, one or more of the prospective subscriber's dependents or the prospective subscriber's household receives benefits from a qualifying assistance program.</p> |

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| | | <p>(ii) Must securely retain copies of the documentation demonstrating a subscriber's program-based eligibility for Lifeline, consistent with § 54.417, except to the extent such documentation is retained by the National Verifier.</p> <p>(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based eligibility criteria provided in § 54.409(a)(2) or (b), an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received from the National Verifier, state Lifeline administrator or other state agency:</p> <p>(i) Notice that the subscriber meets the program-based eligibility criteria set forth in § 54.409(a)(2) or (b); and</p> <p>(ii) If a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, a copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section.</p> <p>(iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.</p> |
| #2, 3, 4, 5 | 47 C.F.R. § 54.410(d) (2018) | <p>Eligibility certification form.</p> <p>Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program.</p> <p>(1) The form provided by the entity enrolling subscribers must provide the information in paragraphs (d)(1)(i) through (vi) of this section: (i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program; (ii) Only one Lifeline service is available per household; (iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program; and (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person.</p> |

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| | | <p>(2) The form provided by the entity enrolling subscribers must require each prospective subscriber to provide the information in paragraphs (d)(2)(i) through (viii) of this section: (i) The subscriber's full name; (ii) The subscriber's full residential address; (iii) Whether the subscriber's residential address is permanent or temporary; (iv) The subscriber's billing address, if different from the subscriber's residential address; (v) The subscriber's date of birth; (vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number; (vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; and (viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in § 54.409, the number of individuals in his or her household.</p> <p>(3) The form provided by the entity enrolling subscribers shall require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury: (i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in § 54.409; (ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit. (iii) If the subscriber is seeking to qualify for Lifeline as an eligible resident of Tribal lands, he or she lives on Tribal lands, as defined in 54.400(e); (iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days; (v) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service; (vi) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge, (vii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and (viii) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to § 54.405(e)(4).</p> |
| #3 | 47 C.F.R. § 54.409(a) (2018) | <p>Consumer qualification for Lifeline.</p> <p>To constitute a qualifying low-income consumer: (1) A consumer's household income as defined in § 54.400(f) must be at or below 135% of the Federal Poverty Guidelines for a household of that size; or (2) The consumer, one or more of the consumer's dependents, or the consumer's household must receive benefits from one of the</p> |

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| | | following federal assistance programs: Medicaid; Supplemental Nutrition Assistance Program; Supplemental Security Income; Federal Public Housing Assistance; or Veterans and Survivors Pension Benefit. |
| #4 | 47 C.F.R. § 54.410(b)(1)(i) (2018) | <i>Initial income-based eligibility determination.</i> Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section |
| #5 | <i>Wireline Competition Bureau Provides Guidance on Universal Forms For The Lifeline Program</i> , WC Docket No. 11-12, Public Notice, 33 FCC Rcd 1920 (WCB 2018). | Beginning on July 1, 2018, ETCs using paper enrollment forms must use the FCC's universal Lifeline forms. ETCs enrolling Lifeline applicants with an electronic form must use exactly the same language used in the FCC's universal Lifeline forms. A Spanish language version of the form will be available on USAC's website, and ETCs should use that version for Spanish-speaking consumers. For other languages, direct translations of the FCC's universal Lifeline forms into other languages are acceptable. ETCs that claim Lifeline reimbursement for a subscriber whose enrollment or 60-day recertification notice period began on or after July 1, 2018 using noncompliant forms will be subject to repayments to the Fund and potential enforcement actions. |

****This concludes the report****