High Cost and Low Income Committee Meeting

Audit Reports Briefing Book

Monday, April 25, 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 Reports Released: January 2022

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Southwest Arkansas Telephone Cooperative, Inc. **Attachment A**	7	• The Beneficiary reported state pool revenue even though state pool revenue was no longer applicable as of July 2013; thus resulting in an overstatement of its Intrastate Revenue amount.	$7,361,379	($75,557)	$0	Y
Total	**7**		**$7,361,379**	**($75,557)**	**$0**	

Attachment A

HC2017LR008

Southwest Arkansas Telephone Cooperative, Inc.

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR008

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EXECUTIVE SUMMARY

September 23, 2021

Bill Hegmann
General Manager
Southwest Arkansas Telephone Cooperative, Inc.
2601 East Street
Texarkana, AR 71854-8073

Dear Bill Hegmann:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Southwest Arkansas Telephone Cooperative, Inc. (Beneficiary), study area code 401724 disbursements for the year ended December 31, 2016, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision). 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 FCC Rules that were in effect during the audit period.

USAC may have been 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 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 Gonzales

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

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[1]
Finding #1: **47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29 – Support Not Used For Intended Purpose Of Federal Universal Service**. 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.	$47,328
Finding #2: 47 C.F.R. § 54.1305(b), (i) – Inaccurate Cable And Wire Facilities Routes Allocation. The average CWF and average Category 1 CWF balances reported for High Cost program purposes were not accurate.	$33,540
Finding #3: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense And Accumulated Depreciation Calculation. The Beneficiary's depreciation expense and accumulated depreciation reported for High Cost program purposes was not accurate.	$16,674
Finding #4: 47 C.F.R. § 64.901 – Improper Inclusion of Non-Regulated Amounts and Inaccurate Cost Study Adjustments. The Beneficiary's cost study balances reported for High Cost program purposes were not accurate.	$4,749
Finding #5: 47 C.F.R. § 54.903(a)(4) – Inaccurate Subscriber Line Charge Revenue. The Beneficiary did not report accurate Subscriber Line Charge (SLC) Revenues.	$(1,471)
Finding #6: 47 C.F.R. § 54.1305(b-c), (g-h) – Inaccurate Part 36 Cost Study Balances. The reported 2014 Part 36 cost study balances for High Cost program purposes were not accurate.	$(11,354)
Finding #7: 47 C.F.R. § 51.917(d)(ii)(A)(B) – Inaccurate Revenues: Transitional Intrastate Access Service. The Beneficiary's Intrastate Revenues reported was not accurate.	$(165,023)
Total	**$(75,557)**

[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.

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USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for the Beneficiary for SAC 401724, for High Cost program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

Regarding Finding #1 and Finding #4, USAC Management requires the Beneficiary to be placed on a Corrective Action Plan (C.A.P.) to address the Support Not Used For Intended Purpose Of Federal Universal Service and Improper Inclusion of Non-Regulated Amounts and Inaccurate Cost Study Adjustments. As part of the C.A.P., the Beneficiary must report to High Cost Management, within 60 days of the date of the Recovery Letter (to be issued by USAC's High Cost Division), how it plans to improve its documentation processes.

	HCL (A)	ICLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$33,723	$13,605	$0	$47,328	
Finding #2	$(2,725)	$36,265	$0	$33,540	
Finding #3	$11,329	$5,345	$0	$16,674	
Finding #4	$2,615	$2,134	$0	$4,749	
Finding #5	$0	$(1,471)	$0	$(1,471)	
Finding #6	$0	$(11,354)	$0	$(11,354)	
Finding #7	$0	$0	$(165,023)	$(165,023)	
Mechanism Total	**$44,942**	**$44,524**	**$(165,023)**	**$0**	

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

[2] *Id.*

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2014-2015	2016	$355,902
High Cost Loop (HCL)	2014	2016	$4,047,472
Interstate Common Line Support (ICLS)	2014	2016	$2,958,005
Total			**$7,361,379**

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Subscriber Listing and Billing Records

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

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings;
- The data files contained duplicate lines;

- The data files contained blank or invalid data;
- The data files contained non-revenue producing or non-working loops; and
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. Fixed Assets

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

E. Operating Expenses

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

F. Revenues

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

G. Form 481

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

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DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service

CONDITION

AAD obtained and examined documentation to determine whether (1) the Beneficiary recorded its cost study balances to the proper general ledger accounts and (2) the Beneficiary used its High Cost support for the provision, maintenance, or upgrading of facilities and services for which the support was intended. AAD reviewed the Beneficiary's general ledger for the twelve months ended December 31, 2014, March 31, 2015, and June 30, 2015,[3] and documentation for leases. AAD determined the Beneficiary did not exclude disallowed transactions from its High Cost fillings, but, as detailed in the chart below, had included cost unrelated to the intended use of High Cost program support. AAD found, for the twelve months ended December 31, 2014, 138 expense transactions totaling $126,897; for the twelve months ended March 31, 2015, 168 expense transactions totaling $114,975; and for the twelve months ended June 30, 2015,167 expense transactions totaling $115,863.

Expense Category	Twelve Months Ended		
	December 31, 2014	March 31, 2015	June 30, 2015
Subscriptions	$374	$374	$292
Sponsorships of Conferences or Community Events	$6,505	$6,505	$5,067
Membership Fees and Dues in Clubs and Organizations	$27,073	$21,073	$20,573
Gifts to Employees	$10,244	$10,175	$10,175
Food and Entertainment	$22,597	$13,006	$13,876
Personal Expenses of Employees	$34,727	$32,890	$44,651
Aircraft Expenses	$25,378	$30,953	$21,229
Total	**$126,897**	**$114,975**	**$115,863**

In addition, AAD performed testing of affiliate transactions to determine whether the Beneficiary appropriately categorized the transactions. For two aircraft expenses, AAD examined documentation for lease expenses totaling $156,328 and determined that the documentation was not sufficient to substantiate that the regulated portion of its aircraft expense reported for High Cost purposes was used for the intended

[3] *See* also 47 C.F.R. § 54.1306(a). The Beneficiary submitted an updated High Cost filing as of March 31, 2015 and June 30, 2015 for High Cost Loop (HCL) support, but did not amend its filing relevant to its Interstate Common Line support (ICLS). Thus, the relevant filing for the Beneficiary's ICLS remained that filed as of December 31, 2014. In this case, the periods between HCL and ICLS overlap by nine months in total. To ensure no duplicative monetary effects; AAD calculated a monetary effect for the identified exception for the applicable periods for each High Cost fund.

purpose and in accordance with the FCC Rules.[4] In response to AAD's testing and inquiries, the Beneficiary informed AAD that it decided that it should exclude the entire $156,328 of corporate aircraft expense from the High Cost support filings for the audit period under review (i.e., January 1, 2014 to June 30, 2015).[5]

In summary, the accounts in which the Beneficiary did not demonstrate High Cost support was used for its intended use or did not demonstrate it calculated an accurate allocation between regulated and non-regulated activities are as follows:

Account Number and Name[6]	Twelve Months Ended		
	December 31, 2014	March 31, 2015	June 30, 2015
6620 - Customer Operations Services Expense	$3,928	$3,928	$3,928
6110 - Network Support Expense	$26,628	$29,432	$29,446
6120 - General Support Expense	$30,094	$31,210	$34,749
6710 - Executive Expense	$39,488	$29,646	$27,480
6710 - Executive Expense-Aircraft Lease	$109,928	$109,928	$99,295
6720 - General Administrative Expense	$26,759	$20,759	$20,260
Total	**$236,825**	**$224,903**	**$215,158**

AAD clarifies that while FCC 15-133[7] and FCC 18-29[8] were released after the audit period, the FCC Rule that was effective during the audit period states 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."[9] The Beneficiary should have removed these unallowable transactions during its cost study process.

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

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to exclude expenses for activities that were not for the intended use of High Cost program support from its High

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[4] 47 CFR § 54.320(b).
[5] *See* Beneficiary's response to AAD's *Audit Inquiry Record*, received June 25, 2019.
[6] *See* FCC 15-133 and FCC 18-29. *See also* 47 U.S.C. § 254(e), 47 C.F.R. §§ 65.450(a), 32.6110 (2002); 32.6120 (2002); 32.6620 (2002); 32. 6710 (2002); and 32.6720 (2002).
[7] In FCC 15-133, the FCC includes the following expense categories: Sponsorships of Conferences or Community Events, Membership Fees and Dues in Clubs and Organizations, Gifts to Employees, Food, Entertainment, and Personal Expenses of Employees.
[8] In FCC 18-29, the FCC includes Aircraft Expenses.
[9] 47 C.F.R. § 54.7; *see also* § 254(e).

Cost support filings. Also, the Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate its expenses were recorded in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that the transactions were included based on its understanding of the FCC Rules in place at the time.[10]

EFFECT

AAD calculated the monetary effect for this finding by subtracting disallowed expense transactions totaling $236,825, $224,903 and $215,158 for the twelve months ended December 31, 2014, March 31, 2015, and June 30, 2015, respectively, from the balances reported by the Beneficiary in its respective accounts on the High Cost filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$33,723
ICLS	$13,605
Total	**$47,328**

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 the FCC Rules. The Beneficiary must develop and implement policies, procedures and processes that describe how the Beneficiary uses its High Cost support for its intended use, records its cost study balances to the proper general ledger account, 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. 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

> Based on the clarification issued by the FCC in FCC 18-20, SWAT has initiated procedures, and continues to apply these procedures, to exclude ineligible expenses such as those listed in Finding #1 when preparing High Cost Support Filings. While USAC concluded that certain expenses associated with the property purchased by SWAT were ineligible for cost recovery, we believe the capital expenditures and operating expenses related to the property were reasonable and necessary for the Company to maintain on-site security for Company's business office, warehouse, and its personnel.

[10] Beneficiary responses to *Summary of Exceptions*, received Aug. 28, 2020.

AAD RESPONSE

In its response, the Beneficiary stated "…we believe the capital expenditures and operating expenses related to the property were reasonable and necessary for the Company to maintain on-site security for Company's business office, warehouse, and its personnel." However, the FCC stated, "carriers can recover those expenses from high-cost support to the extent those expenses are used only for, directly related to, and incurred for the sole purpose of, the provision, maintenance, and upgrading of facilities and services for which the support is intended."[11] The FCC identified eligible operating expenses in section 54.304(a)(2) of its rules.[12] Pursuant to the rules, expenses unrelated to operations are not currently included in these high-cost support calculations.[13] AAD finds that the expenses in question are not logically related or necessary to offering voice or broadband service nor are they used in the ordinary course for providing interstate telecommunications services.[14]

For this reason, AAD's recommendation remains unchanged.

Finding #2: 47 C.F.R. § 54.1305(b), (i) – Inaccurate Cable and Wire Facilities Routes Allocation

CONDITION

AAD obtained and examined the Beneficiary's documentation to determine whether the Beneficiary's allocation of Cable and Wire Facilities (CWF) routes was accurate for its December 31, 2014, March 31, 2015 and June 30, 2015 Dash filings for High Cost program purposes. AAD determined that the Beneficiary prepared the CWF route allocation as of June 30, 2014 instead of December 31, 2014.[15] Thus, the Beneficiary overstated its CWF average CWF and Category 1 balances for High Cost purposes.

AAD recalculated the average CWF and Category 1 balance as of December 31, 2014, identifying differences compared to reported average CWF and Category 1 balance for December 31, 2014, March 31, 2015, and June 30, 2015 Dash filing. The differences are summarized below:

[11] *Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 16 (Mar. 23, 2018).
[12] *See* 47 CFR § 54.303(a)(2).
[13] *Id.*, see also 47 CFR § 32.6535.
[14] *Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, Appendix A (Mar. 23, 2018).
[15] 47 C.F.R. § 36.152(d).

Data Line	Line Description	Dollars ($)		
		December 31, 2014 Difference Understated / (Overstated)	March 31, 2015 Difference Understated / (Overstated)	June 30, 2015 Difference Understated / (Overstated)
DL700_2410_AVG-CABLE _WIRE	Average CWF	($1,342,375)	($1,342,375)	($1,342,375)
DL710_CAT1_AVG-CABLE _WIRE	Average Category 1 CWF	($1,239,712)	($1,239,712)	($1,239,712)

Because the Beneficiary used its June 30, 2014 Continuing Property Record (CPR) to calculate its average CWF and Category 1 CWF balances instead of the December 31, 2014 CPR, AAD concludes that the reported average CWF and average Category 1 CWF balances reported for High Cost program purpose were not accurate.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules governing preparation, reporting, and record-keeping of the CWF route allocation used to report amounts for High Cost program purposes. The Beneficiary informed AAD that NECA guidance at the time the 2015-1 and related dash filings were prepared allowed the use of June mid-point balances for study purposes and the relationship of June CAT 1 to total CWF to determine CAT 1 reported in the Dash filings.[16] However, NECA guidance provided to AAD by the Beneficiary related to the use of historical data to create a cost forecast and not the submission of actual data for USF reporting purposes as suggested by Beneficiary.[17] Nonetheless, NECA's guidance does not negate the FCC Rules.

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from or adding the understated amount to the total amount reported by the Beneficiary in its respective accounts on the High Cost program filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	($2,725)
ICLS	$36,265
Total	**$33,540**

[16] Beneficiary responses to *Summary of Exceptions*, received Aug. 28, 2020.

[17] *Annual 1985 Access Tariff Filings*, CC Docket No. 86-125, 2 FCC Rcd 1416, Phase I, Order Designating Issues for Investigation, p.16 at n. 23 (Apr. 16, 1986) (stating, "[f]or constructing the trend, we used six quarters of seasonally adjusted post-divestiture data . . . The LECs (Local Exchange Carriers) provided average TPIS (Total Plant In Service) and used various averaging methods in doing so. TPIS is a balance sheet item and can be expressed either as a balance at a given point of time or as an average balance over a given span of time. In general, for trending purposes, we assumed that the date associated with a particular TPIS observation was the midpoint for the span of time for which the TPIS was averaged").

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 it uses the proper CWF balance to calculate its average CWF and Category 1 CWF balances for reporting data that is submitted 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

> SWAT has implemented a year-end average methodology instead of using a June mid-point as a surrogate for year-end averages in its cost study and HCP filings. The year-end average methodology was implemented beginning with the Company's 2017 cost study and 2018-1 HCL submissions.
> We note the FCC rules are unclear with respect to the use of a June mid-point as a surrogate for average plant and categorization balances. The rule cited in the Criteria section specifically references study areas subject to price cap regulation and SWAT is not a price cap carrier.

AAD RESPONSE

In its response, the Beneficiary stated "The rule cited in the Criteria section specifically references study areas subject to price cap regulation and SWAT is not a price cap carrier." However, the rule section 54.1305 is applicable to rate of return carriers, not price cap carriers, as it is included in Part 54 Subpart M (High Cost Loop Support for Rate-of-Return Carriers).[18]

For this reason, AAD's recommendation remains unchanged.

Finding #3: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary's depreciation expense and accumulated depreciation reported for High Cost program purposes was accurate. In accordance with the FCC Rules, the Beneficiary must record depreciation expense utilizing average monthly asset balances based on the first and last day of each month and record the associated accumulated depreciation

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[18] *See* 47 C.F.R. Part 54, Subpart M; 47 C.F.R. § 54.1301(a) (stating ,"Beginning January 1, 2012, this subpart will only apply to incumbent local exchange carriers that are rate-of-return carriers not affiliated, as ''affiliated companies'' are defined in §32.9000 of this chapter, with price cap local exchange carriers.").

accordingly.[19] However, the Beneficiary utilized the actual month-end asset balances to compute depreciation expense.

For the twelve-month period ended December 31, 2014, depreciation expense per the Beneficiary utilizing month-end asset balances was $3,861,547. AAD's recalculation of depreciation expense utilizing average monthly asset balances was $3,832,741, resulting in the Beneficiary overstating depreciation expense and the associated accumulated depreciation by $28,806 for 2015-1 HCL Form and 2014 Form 509 reporting purposes. For the twelve-month period ended March 31, 2015, depreciation expense per the Beneficiary utilizing month-end asset balances was $3,960,035. AAD's recalculation of depreciation expense utilizing average monthly asset balances was $3,930,137, resulting in the Beneficiary overstating depreciation expense and the associated accumulated depreciation by $29,898 for 2015-2 HCL Form reporting purposes. For the twelve-month period ended June 30, 2015, depreciation expense per the Beneficiary utilizing month-end asset balances was $4,032,790. AAD's recalculation of depreciation expense utilizing average monthly asset balances was $3,984,301, resulting in the Beneficiary overstating depreciation expense and the associated accumulated depreciation by $48,489 for 2015-3 HCL Form reporting purposes.

Because the Beneficiary did not use the average monthly asset balance in its depreciation calculation, AAD concludes that the Beneficiary's depreciation expense and accumulated depreciation reported for High Cost purposes was not accurate.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules governing the proper calculation of depreciation expense and accumulated depreciation. The Beneficiary informed AAD that the Beneficiary was not aware that the average monthly balances of assets were to be used to calculate depreciation at the time the 2014 study was prepared.[20]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated depreciation expense and accumulated depreciation amounts from the balances reported by the Beneficiary in its High Cost filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$11,329
ICLS	$5,345
Total	**$16,674**

[19] 47 C.F.R. § 32.2000(g)(2).

[20] Beneficiary responses to *Summary of Exceptions*, received Aug. 28, 2020.

RECOMMENDATION

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

The Beneficiary must examine the FCC Rules detailed in the Criteria section of this report to familiarize itself with the depreciation calculation requirements for High Cost purposes. The Beneficiary must implement an adequate system to ensure it reports accurate amounts for High Cost program purposes and maintains documentation to demonstrate compliance with the FCC Rules. The Beneficiary must develop and implement policies, procedures and processes that describe how the Beneficiary ensures depreciation expense and accumulated depreciation are reported utilizing the average monthly asset balances. 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

> SWAT agrees with this finding. SWAT became aware that the depreciation expense should be calculated on average monthly asset balances in November,[sic] 2018 and corrected the methodology beginning January,[sic] 2019.

Finding #4: 47 C.F.R. § 64.901 – Improper Inclusion of Non-Regulated Amounts and Inaccurate Cost Study Adjustments

CONDITION

AAD obtained and examined documentation to support the Beneficiary's cost study allocation factors to determine whether its cost study adjustments were accurately calculated for High Cost program purposes. The Beneficiary used a general allocation factor to allocate non-regulated cost.[21] To determine the general allocation factor, the Beneficiary used the weighted average of the square footage of each department multiplied by the percentage of non-regulated employee labor hours in each department. The Beneficiary did not accurately calculate the adjustments for the non-regulated activities, as reflected in the Part 64 Cost Study. Specifically, AAD identified the following:

- When determining its plant account adjustments, the Beneficiary included shared space such as its computer and mail office and its plant and storage office as 100 percent regulated in its non-regulated factor. In addition, the Beneficiary did not allocate the non-regulated portion of its general manager reception office when calculating its non-regulated factor. The Beneficiary's calculated non-regulated factor was 3.38 percent. AAD recalculated the non-regulated factor as 4.09 percent.
- In addition to the above, in determining its non-regulated adjustments for the plant account and accumulated depreciation account for the December 31, 2014, March 31, 2015 and June 30, 2015 Dash

[21] 47 C.F.R. § 64.901(b)(3).

filings, the Beneficiary applied the non-regulated factor to the June 30, 2014 balances instead of the December 31, 2014, March 31, 2015 and June 30, 2015 balances for the respective dash-filings. As a result of applying the non-regulated factor to the June 2014 balances, the Beneficiary did not correctly exclude non-regulated amounts for the various High Cost program filings[22].

- The Beneficiary used an incorrect balance for 6560-2210 - Building and Grounds Depreciation Expense when allocating expenses to the radio towers to calculate the regulated and non-regulated depreciation expense.
- When calculating its joint use, the Beneficiary used an inaccurate fully-regulated balance, which resulted in inaccurate joint use calculations for 6124 - Computer, 6627 - Customer Service Revenue, 6711 - Executive, 6721 - Accounting, 6722 - External Relations and 6724 - Information Management.
- The Beneficiary calculated the non-regulated portion as of December 31, 2014 for land and support assets and the related accumulated depreciation and for certain expenses and used the same adjustments for the subsequent Dash Filings rather than calculating the non-regulation portion based on the balances for each Dash Filing reporting period.

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

Account Number[23]	Account Description	Dollars ($)		
		December 31, 2014 Difference Understated / (Overstated)	March 31, 2015 Difference Understated / (Overstated)	June 30, 2015 Difference Understated / (Overstated)
2001	Telephone Plant In Service	$24,693	$24,829	$28,630
3100	Accumulated Depreciation	$(21,626)	$(23,036)	$(23,768)
6110	Network Support Expense	$158	$60	$153
6120	General Support Expense	$6,329	$5,733	$5,728
6560_2210	Depreciation Expense – COE Switching	$2,064	$778	$(64)
6620	Customer Operations Service Expense	$2	$(24)	$(56)
6710	Executive Expense	$(12)	$(296)	$(562)
6720	General Admin. Expense	$2,179	$2,785	$3,353
7200	Operating Taxes	$1,714	$1,850	$1,965
	TOTAL	**$15,557**	**$12,679**	**$15,379**

Because the Beneficiary did not exclude portions of its non-regulated amounts, AAD concludes that the Beneficiary's cost study balances reported for High Cost program purposes were not accurate.

[22] *See also* "Finding #5-Inaccurate Power and Common Spread and Cable and Wire Facilities Routes Allocation".
[23] *See* 47 C.F.R. §§ 32.2001, 32.3100, 32.6110, 32.6120, 32.656032.6620, 32.6720, and 32.7200.

Universal Service Administrative Co.

CAUSE

The Beneficiary did not have adequate controls and procedures in place for collecting, reporting, and monitoring data to report the correct cost study balances for High Cost program purposes. The Beneficiary informed AAD that most of the Part 64 calculations were manually determined and oversights were made that were not detected by a subsequent review.[24]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from or adding the understated amount to the total amount reported by the Beneficiary in its respective accounts on the High Cost program Filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$2,615
ICLS	$2,134
Total	**$4,749**

RECOMMENDATION

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

The Beneficiary must implement controls and procedures to ensure it properly reports the correct amounts for High Cost program purposes and maintain documentation to demonstrate compliance with the FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will accurately calculate adjustments to remove non-regulated transactions from the account balances that are submitted 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

> SWAT agrees with this finding. There was an error in the floor space study used to determine Part 64 allocation factors and the same non-regulated amounts were carried forward in quarterly filings rather than being updated with each filing. SWAT has updated its Part 64 study and has implemented additional controls to reduce the occurrence of errors.

Finding #5: 47 C.F.R. § 54.903(a)(4) – Inaccurate Subscriber Line Charge Revenue

[24] Beneficiary responses to *Summary of Exceptions*, received Aug. 28, 2020.

CONDITION

AAD obtained and examined the Beneficiary's general ledger and its 24 Month Latest View to determine whether the Beneficiary reported accurate Subscriber Line Charge (SLC) revenues for High Cost program purposes. The Beneficiary's net SLC revenue per the general ledger for January 2014 through December 2014 amounted to $364,312.[25] However, the Beneficiary reported net SLC revenue in its 24 Month Latest View as $365,857. Thus, the Beneficiary overstated its SLC revenue amount by $1,545 in its 24 Month Latest View.

Because the Beneficiary did not provide supporting documentation that agrees to what it reported, AAD concludes that the Beneficiary did not report accurate Subscriber Line Charge (SLC) Revenues.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate SLC revenues for High Cost program purposes. The Beneficiary informed AAD that an Excel formula was incorrect, which added bad debts to SLC revenue instead of subtracting them.[26]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from the total SLC revenue reported by the Beneficiary in its ICLS filing. AAD summarized the results below:

Support Type	Monetary Effect
ICLS	$(1,471)

RECOMMENDATION

The Beneficiary must implement an adequate system to ensure it reports accurate data for High Cost program purposes and maintains documentation to demonstrate compliance with the FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure (1) the SLC revenue is accurately reported, excluding bad debts from its balance reported for High Cost purposes, and (2) a review process of its excel calculations to avoid mathematical errors. 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

SWAT agrees with this finding. This issue was discovered in a PQA audit (HC2016-11-Case 349) conducted several years ago that reviewed the same period as this audit. Based on the PQA audit findings, SWAT had already implemented additional review controls to report accurate data and avoid mathematical errors.

AAD RESPONSE

[25] Net SLC revenue is calculated by adding back to SLC revenue the balances recorded as uncollectible and deducting any collections of amounts previously recorded as uncollectible.
[26] Beneficiary responses to AAD's *Summary of Exceptions*, received Aug. 28, 2020.

In its response, the Beneficiary stated, "This issue was discovered in a PQA audit … Based on the PQA audit findings, SWAT had already implemented additional review controls to report accurate data and avoid mathematical errors." AAD clarifies that PQA assessment are not audits. Additionally, although additional controls may have been implemented, the controls in operation during the audit period did not prevent inaccurate SLC revenues from being reported, as stated in the Condition.

For this reason, AAD's recommendation remains unchanged.

Finding #6: 47 C.F.R. § 54.1305(b)-(c), (g)-(h) – Inaccurate Part 36 Cost Study Balances

CONDITION

AAD obtained and examined the Beneficiary's general ledger and cost studies to determine whether the Beneficiary had accurately reported its Part 36 cost study balances for High Cost program purposes. The Beneficiary used the June 30, 2014 balance sheet accounts for its December 31, 2014 cost study and High Cost fillings. Pursuant to FCC rules, the Beneficiary should have used the average of the balances reported in the December 31, 2013 and December 31, 2014 balance sheet accounts used for its Dash filings. In the table below, we summarize the differences:

Account Number[27]	Account Description	Average Balance per Dec. 31, 2013 and Dec. 31, 2014 Dash Filings A	Part 36 Cost Study Balance B	Difference Overstated / (Understated) C=B-A
1220	Inventory (Material and Supplies)	$1,166,943	$1,242,151	$75,208
2210	COE Switching	$2,684,099	$2,657,249	($26,850)
2230	COE Transmission	$12,537,847	$12,620,454	$82,607
2001	Telephone Plant In Service	$63,801,575	$65,262,188	$1,460,613
3100	Accumulated Depreciation	$40,784,803	$41,437,117	$652,314
3100_2210	Accumulated Depreciation - COE Switching	$2,684,099	$2,657,249	($26,850)
3100_2230	Accumulated Depreciation - COE Transmission	$9,064,824	$9,229,309	$164,485
3100_2410	Accumulated Depreciation - C&WF	$21,975,789	$22,427,335	$451,546

The Beneficiary informed AAD that it followed NECA guidance in preparing the Part 36 cost study.[28] Specifically, the Beneficiary noted that under NECA guidance for the 2014 cost study, so long as a carrier was consistent from year to year, the use of June mid-point balances, simple average balances, or average of

[27] *See* 47 C.F.R. §§ 32.1220, 32.2210, 32.2230, 32.2410, 32.2001, and 32.3100.

[28] Beneficiary responses to *Summary of Exceptions*, received Aug. 28, 2020 (Aug 28th Response).

average balances when preparing cost studies was allowed.[29] However, the referenced NECA guidance related to the use of historical data to create a cost forecast and not the submission of actual data for USF reporting purposes as suggested by Beneficiary.[30]

Because the Beneficiary used the incorrect period to report its cost study balances, AAD concludes that the reported 2014 Part 36 cost study balances for High Cost program purposes were not accurate.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules for reporting its Part 36 cost studies for High Cost program purposes. The Beneficiary informed AAD that it followed NECA guidance in preparing the Part 36 cost study.[31] As explained in the Condition Section above, NECA's guidance did not address this particular issue. Nonetheless, NECA's guidance does not negate the FCC Rules.

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from or adding the understated amount to the total amount reported by the Beneficiary in its respective accounts on the High Cost program Filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
ICLS	($11,354)

RECOMMENDATION

The Beneficiary must ensure it has an adequate system to accurately report the correct amounts 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 calculate the Part 36 cost study balances as the average of the balances as of December 31 of the prior year and December 31 of the current year. 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

> As stated in SWAT's response to Finding #2, the Company implemented a year-end average methodology instead of using a June mid-point as a surrogate for year-end averages in the Company's cost study and HCP filings. The year-end average methodology was implemented beginning with the

[29] See Aug 28th Response; *see also Mergers and Other Significant Investment Growth*, NECA Reporting Guideline 8.8 (Nov. 1996) (providing, "… in discussing averaging methods used by LECs in a data submission, the Commission noted that most companies use methods such as the "average of averages" method or other similar methods.").
[30] *See supra* n.9.
[31] *See* Aug 28th Response.

Company's 2017 cost study and 2018-1 HCL submissions. We have not identified a specific FCC rule prohibiting the use of a June mid-point methodology for rate base, including categorization assignments for COE and CWF balances to Category 4.13 and Category 1 for rate of return carriers. The rule cited in the Criteria section specifically references study areas subject to price cap regulation and SWAT is not a price cap carrier.

AAD RESPONSE

In its response, the Beneficiary stated, "The rule cited in the Criteria section specifically references study areas subject to price cap regulation and SWAT is not a price cap carrier." However, the rule stated in the Criteria (47 C.F.R. § 54.1305) is applicable to rate of return carriers, not price cap carriers, as it is included in Subpart M. Per FCC Rules, Subpart M will only apply to incumbent local exchange carriers that are rate of-return carriers not affiliated.[32]

For this reason, AAD's recommendation remains unchanged.

Finding #7: 47 C.F.R. § 51.917(d)(ii)(A)(B) – Inaccurate Revenues: Transitional Intrastate Access Service

CONDITION

AAD obtained and examined the Beneficiary's billing reports and general ledger to determine whether the Beneficiary reported accurate Transitional Intrastate Access Service Revenues (Intrastate Revenue) for High Cost program purposes. On its CAF ICC filing, the Beneficiary utilized the 24 Month View for reporting the Intrastate Revenue rather than the total Intrastate Revenue that was identified on the Beneficiary's billing reports and general ledger. In the 24 Month View, the Beneficiary reported state pool revenue within the Intrastate Revenue amount even though state pool revenue was no longer applicable as of July 2013,[33] resulting in an overstatement of Intrastate Revenue. The differences are summarized below:

Revenues	Program Year 2013-2014	Program Year 2014-2015
Intrastate Revenue Reported	$453,184	$420,465
Billing Report/GL Intrastate Revenue	$284,136	$259,470
Intrastate Revenue Difference	**$169,048**	**$160,995**

Because the Beneficiary reported the Intrastate Revenue per the 24 Month View for High Cost program purposes rather than the amount per its billing report and general ledger, AAD concludes that the Beneficiary's Intrastate Revenues reported was not accurate.

[32] *Supra Note 20.*

[33] Beneficiary responses to AAD's *Audit Inquiry Record*, received Jun. 6, 2019.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules for reporting Intrastate Revenues for High Cost program purposes. The Beneficiary informed AAD that it relied on guidance provided by the consultant to include Arkansas IntraLATA Toll Pool revenue in its CAF ICC filings. It was later determined that these revenues should not be included; however, the Beneficiary was not informed by its consultant of the rule change.[34]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from the total Intrastate Revenue amount reported by the Beneficiary in its CAF ICC filing.[35] AAD summarized the results below:

Support Type	Monetary Effect
CAF ICC	$(165,023)[36]

RECOMMENDATION

The Beneficiary must implement an adequate system to ensure it reports accurate data for High Cost Program purposes and maintains documentation rather than solely relying on its consultant to demonstrate compliance with the FCC Rules.

The Beneficiary must develop and implement policies, procedures and processes that describe how the Beneficiary will ensure that it reports accurate Intrastate Revenue for High Cost 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

SWAT agrees with this finding. SWAT reported revenues for the period in question based on guidance from its consultant at the time. After becoming aware of this issue in 2018, SWAT has made every effort to report accurate revenues associated with the transitional intrastate access service.

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[34] Beneficiary responses to *Summary of Exceptions*, received Aug. 28, 2020.

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

[36] Under existing policies, High Cost Division management rounds down CAF ICC Support to the nearest dollar throughout the calculation. Thus, the monetary effect does not exactly equal half of the variance.

CRITERIA

Finding	Criteria	Description
#1	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."
#1	*All Universal Service High-Cost Recipients are Reminded that Support Must be Used for Its Intended Purpose*, WC Docket No. 10-90, et-al., Public Notice, FCC 15-133, paras. 3,7 (2015).	"Under federal law, high-cost support provided to an ETC must be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended…The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: Personal travel; Entertainment; Alcohol; Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; Political contributions; Charitable donation Scholarships; Penalties or fines for statutory or regulatory violations; Penalties or fees for any late payments on debt, loans or other payments Membership fees and dues in clubs and organizations; Sponsorships of conferences or community events; Gifts to employees; and Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages."
#1	*Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 16 (Mar. 23, 2018).	"Recent events by carriers involving large-scale abuses in the recovery of expenses that are unrelated to the provision of a universal service supported services give us cause to provide more specific rules for compliance with section 254(e). We have a duty to the public to protect against waste, fraud, and abuse and ensure ETCs utilize finite universal service funds most effectively for their intended purpose. Unrelated expenses detract from universal service goals. We find that section 254(e) provides that carriers can recover those expenses from high-cost support to the extent those expenses are used only for, directly related to, and incurred for the sole purpose of, the provision, maintenance, and upgrading of facilities and services for which the support is intended, i.e., supported voice and broadband. The use by Congress of the word "only" to modify the description of the uses of universal service support indicates that such support must be used exclusively for providing, maintaining and upgrading of facilities and services, so that support is not used for purposes other than those "for which the support is intended." To the extent an expense is incurred in part for a recoverable business use and in part for a non-recoverable use, carriers may only recover from high-cost support that portion of expenses incurred for the provision, maintenance, and upgrading of facilities for which support is intended."

Finding	Criteria	Description
#1	47 C.F.R. § 54.1306(a) (2014).	"Any incumbent local exchange carrier subject to § 54.1301(a) may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to § 54.1305 one or more times annually on a rolling year basis according to the schedule. (1) Submit data covering the last nine months of the previous calendar year and the first three months of the existing calendar year no later than September 30th of the existing year; (2) Submit data covering the last six months of the previous calendar year and the first six months of the existing calendar year no later than December 30th of the existing year; (3) Submit data covering the last three months of the second previous calendar year and the first nine months of the previous calendar year no later than March 30th of the existing year."
#1	47 C.F.R. § 54.320(b) (2014).	"All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors."
#1	47 C.F.R. § 65.450(a) (2014).	"Net income shall consist of all revenues derived from the provision of interstate telecommunications services regulated by this Commission less expenses recognized by the Commission as necessary to the provision of these services. The calculation of expenses entering into the determination of net income shall include the interstate portion of plant specific operations (Accounts 6110-6441), plant nonspecific operations (Accounts 6510-6565), customer operations (Accounts 6610-6623), corporate operations (Accounts 6720-6790), other operating income and expense (Account 7100), and operating taxes (Accounts 7200-7250), except to the extent this Commission specifically provides to the contrary."
#1	47 C.F.R. § 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."
#1	47 C.F.R. § 32.6110 (2002).	(a) Companies shall use this account for expenses of the type and character detailed in Accounts 6112 through 6114. (b) Credits shall be made to this account by companies for amounts transferred to Construction and/or other Plant

Finding	Criteria	Description
		Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.
#1	47 C.F.R. § 32.6120 (2002).	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6121 through 6124.
#1	47 C.F.R. § 32.6620 (2002).	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6621 through 6623.
#1	47 C.F.R. § 32.6710 (2002).	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.
#1	47 C.F.R. § 32.6720 (2002).	This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, Nonoperating income and expense, for lobbying expenses); (2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits; (3) Performing public relations and non-product-related corporate image advertising activities; (4) Administering relations, including negotiating contracts, with telecommunications companies and

Finding	Criteria	Description
		other utilities, businesses, and industries. This excludes sales contracts (see also Account 6611, Product management and sales); and (5) Administering investor relations. (e) Performing personnel administration activities. This includes: (1) Equal Employment Opportunity and Affirmative Action Programs; (2) Employee data for forecasting, planning and reporting; (3) General employment services; (4) Occupational medical services; (5) Job analysis and salary programs; (6) Labor relations activities; (7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs; (8) Personnel policy development; (9) Employee communications; (10) Benefit administration; (11) Employee activity programs; (12) Employee safety programs; and (13) Nontechnical training course development and presentation. (f) Planning and maintaining application systems and databases for general purpose computers. (g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims. (i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a

Finding	Criteria	Description
		corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.
#2	47 C.F.R. § 54.1305(b), (i) (2014).	"(b) Unseparated, i.e., state and interstate, gross plant investment in Exchange Line Cable and Wire Facilities (C&WF) Subcategory 1.3 and Exchange Line Central Office (CO) Circuit Equipment Category 4.13. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing.… (i) The number of working loops for each study area. For universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing."
#2	47 C.F.R. § 36.152(d) (2014).	"Effective July 1, 2001, through December 31, 2024, study areas subject to price cap regulation, pursuant to §61.41 of this chapter, shall assign the average balance of Account 2410 to the categories/subcategories, as specified in paragraph (a) through (c) of this section based on the relative percentage assignment of the average balance of Account 2410 to these categories/subcategories during the twelve-month period ending December 31, 2000."
#3	47 C.F.R. § 32.2000(g)(2) (2014).	"(i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant

Finding	Criteria	Description
		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."
#4	47 C.F.R. § 64.901 (2014).	"(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. (b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. (1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Non tariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service. (2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. (3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities. (4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated

Finding	Criteria	Description
		usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed. (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."
#4	47 C.F.R. § 32.6110 (2014).	"(a) Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6112 through 6114. (b) Credits shall be made to this account by Class B companies for amounts transferred to Construction and/or other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours."
#4	47 C.F.R. § 32.6120 (2014).	"Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6121 through 6124."
#4	47 C.F.R. § 32.6560 (2014).	"Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6561 through 6565."
#4	47 C.F.R. § 32.6620 (2014).	"Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6621 through 6623."
#4	47 C.F.R. § 32.6720 (2014).	"This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities

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

Finding	Criteria	Description
		(i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g. Cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported."
#4	47 C.F.R. § 32.7200 (2014).	"Class B telephone companies shall use this account for operating taxes of the type and character required of Class A companies in Accounts 7210 through 7250."
#4, #6	47 C.F.R. § 32.2001 (2014).	"This account shall include the original cost of the investment included in Accounts 2110 through 2690."
#4, #6	47 C.F.R. § 32.3100 (2014).	"(a) This account shall include the accumulated depreciation associated with the investment contained in Account2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense—telecommunications plant in service. (Note also Account3300, Accumulated depreciation—non-operating.) (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. (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

Finding	Criteria	Description
		values suffered through terminations of service when charges for such terminations are made to recover the losses."
#5	47 C.F.R. § 54.903(a)(4) (2014).	"Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Interstate Common Line Support, including common line and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line Interstate Common Line Support amounts in the final two quarters of the following calendar year to the extent of any difference between the carrier's ICLS received based on projected common line cost and revenue data and the ICLs for which the carrier is ultimately based on its actual common line cost and revenue data during the relevant period."
#6	47 C.F.R. §54.1305(b-c), (g-h) (2014).	"(b) Unseparated, i.e., state and interstate, gross plant investment in Exchange Line Cable and Wire Facilities (C&WF) Subcategory 1.3 and Exchange Line Central Office (CO) Circuit Equipment Category 4.13. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing. (c) Unseparated accumulated depreciation and noncurrent deferred federal income taxes, attributable to Exchange Line C&WF Subcategory 1.3 investment, and Exchange Line CO Circuit Equipment Category 4.13 investment. These amounts shall be calculated as of December 31st of the calendar year preceding each July 31st filing, and shall be stated separately…. (g) Unseparated gross telecommunications plant investment. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing. (h) Unseparated accumulated depreciation and noncurrent deferred federal income taxes attributable to local unseparated telecommunications plant investment. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing."
#6	47 C.F.R. § 32.1220 (2014).	"(a) This account shall include the cost of materials and supplies held in stock and inventories of goods held for resale or lease. The investment in inventories shall be maintained in the following subaccounts: 1220.1 Material and supplies 1220.2 Property held for sale or lease. (b) These subaccounts shall not include items which are related to a nonregulated activity unless that activity involves joint or common use of assets and resources in the provision of regulated and nonregulated products and services. (c) 1220.1 Material and supplies. This subaccount shall include cost of material and supplies held in stock including plant supplies, motor vehicles supplies, tools, fuel, other supplies and material and articles of the company in process of manufacture for supply stock. (Note also § 32.2000(c)(2)(iii) of this subpart.)

Finding	Criteria	Description
		(d) Transportation charges and sales and use taxes, so far as practicable, shall be included as a part of the cost of the particular material to which they relate. Transportation and sales and use taxes which are not included as part of the cost of particular material shall be equitably apportioned among the detail accounts to which material is charged. (e) So far as practicable, cash and other discount on material shall be deducted in determining cost of the particular material to which they relate or credited to the account to which the material is charged. When such deduction is not practicable, discounts shall be equitably apportioned among the detail accounts to which material is charged. (f) Material recovered in connection with construction, maintenance or retirement of property shall be charged to this account as follows: (1) Reusable items that, when installed or in service, were retirement units shall be included in this account at the original cost, estimated if not known. (Note also § 32.2000(d)(3) of this subpart.) (2) Reusable minor items that, when installed or in service, were not retirement units shall be included in this account at current prices new. (3) The cost of repairing reusable material shall be charged to the appropriate account in the Plant Specific Operations Expense accounts. (4) Scrap and non-usable material included in this account shall be carried at the estimated amount which will be received therefor. The difference between the amounts realized for scrap and non-usable material sold and the amounts at which it is carried in this account, so far as practicable, shall be adjusted in the accounts credited when the material was taken up in this account. (g) Interest paid on material bills, the payments of which are delayed, shall be charged to Account 7500, Interest and related items. (h) Inventories of material and supplies shall be taken periodically or frequently enough for reporting purposes, as appropriate, in accordance with generally accepted accounting principles. The adjustments to this account shall be charged or credited to Account 6512, Provisioning expense. (i) 1220.2 Property held for sale or lease. This subaccount shall include the cost of all items purchased for resale or lease. The cost shall include applicable transportation charges, sales and use taxes, and cash and other purchase discounts. Inventory shortage and overage shall be charged and credited, respectively, to Account 5280, Nonregulated operating revenue."

Finding	Criteria	Description
#6	47 C.F.R. § 32.2210 (2014).	"This account shall be used by Class B companies to record the original cost of switching assets of the type and character required of Class A companies in Accounts 2211 through 2212."
#6	47 C.F.R. § 32.2230 (2014).	"This account shall be used by Class B companies to record the original cost of radio systems and circuit equipment of the type and character required of Class A companies in Accounts 2231 and 2232."
#6	47 C.F.R. § 32.2410 (2014).	"This account shall be used by Class B companies to record the original cost of cable and wire facilities of the type and character required of Class A companies in Accounts 2411 through 2441."
#7	47 C.F.R. § 51.917(d)(ii) (2014).	"Beginning July 1, 2013, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in §51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in §51.909."

This concludes the report.

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: March 2022

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Adak Telephone Utility **Attachment B**	0	• Not applicable.	$356,028	$0	$0	N
Total	**0**		**$356,028**	**$0**	**$0**	

Available For Public Use

Attachment B

HC2021LR001

Available For Public Use

Adak Telephone Utility

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

USAC Audit No. HC2021LR001

TABLE OF CONTENTS

EXECUTIVE SUMMARY

February 1, 2022

Andilea Weaver
VP / Regulatory Director
Adak Eagle Enterprises, LLC
1410 Rudakof Circle
Anchorage, AK, 99508

Dear Andilea Weaver,

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Adak Telephone Utility (Adak), study area code 610989 disbursements for the year ending December 31, 2019, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 51, and 54, as well as other program requirements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with 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 did not disclose any areas of non-compliance with FCC Rules that were in effect during the audit period.

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

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

Sincerely,

Jeanette Santana Gonzalez

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

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

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2016 - 2019	FY2019	$356,028
Total			**$356,028**

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

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

B. High Cost Program Process
AAD obtained an understanding of the Beneficiary's processes related to the High Cost Program to determine whether the Beneficiary complied with FCC Rules.

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

D. 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.

This concludes the report.

Summary of Low Income Support Mechanism Beneficiary Audit Reports Released: February 2022

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
I-Wireless, LLC **Attachment A**	1	• 47 C.F.R. § 54.410(d)(2) – Inadequate Documentation: Eligibility Documentation - Subscriber Name - The Subscriber names on the Eligibility Documentation were not consistent with the names in the Subscriber Data.	$21,476,875	$65	$65	Y
Total	**1**		**$21,476,875**	**$65**	**$65**	

Available For Public Use

Attachment A

LI2018SR007

Available For Public Use

www.pwc.com

Universal Service Administrative Co.

I-Wireless, LLC (LI-2018-SR-007) Forensic Audit of Lifeline Program Disbursements made for the twelve-month period ended December 31, 2017

February 3, 2022

pwc

Ms. Teleshia Delmar
VP of Audit and Assurance
Universal Service Administrative Co.
700 12th Street, NW, Suite 900
Washington, DC 20005

Subject: Lifeline Program Forensic Audit Services – I-Wireless, LLC (LI-2018-SR-007)[1]

Dear Ms. Delmar,

As you are aware, the Senate Homeland Security and Governmental Affairs Committee as well as the Federal Communications Commission's Chairman, have expressed concerns about potential fraud, waste, and abuse with respect to the Universal Service Fund ("USF") Lifeline Program ("Lifeline Program"). In response to these concerns, the Universal Service Administrative Company ("USAC") engaged PricewaterhouseCoopers Advisory Services LLC ("PwC") to conduct a forensic audit of I-Wireless, LLC ("I-Wireless," "Beneficiary," "Eligible Telecommunications Company," "ETC," or "Carrier") to assess compliance with the Lifeline Program rules.

At your request, we have summarized our preliminary observations based on the procedures performed in connection with the above engagement. Our Services were performed and this Report ("Report") was developed in accordance with our contract dated June 22, 2018 and are subject to the terms and conditions included therein.

Our Services were performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants ("AICPA").

This report presents the results of our work conducted on I-Wireless, Study Area Codes ("SAC") #219018 (Florida) and 159023 (New York), for disbursements of $21,476,875 made from the federal Universal Service Lifeline Program during the twelve-month period ended December 31, 2017. Our work was performed during the period from August 8, 2018 to August 23, 2019 and our results are as of August 23, 2019. PwC is providing no opinion, attestation or other form of assurance and disclaims any contractual or other responsibility to others based on their access to or use of the Report. Accordingly, the information in this Report may not be relied upon by anyone other than USAC. The enclosed information, prepared pursuant to our engagement letter, is solely for the use and benefit of USAC and is not intended for reliance by any other person.

[1] SAC # 219018 (Florida) and 159023 (New York).

Our work was limited to the specific procedures and analysis described herein and was based only on the information made available through August 23, 2019. Accordingly, changes in circumstances after this date could affect the findings outlined in this Report.

As our report further describes, PwC identified one (1) finding as discussed in the Finding Section of the Report as a result of the work performed.

Our Services were performed, and this Deliverable was prepared, for the sole use and benefit of, and pursuant to a client relationship exclusively with, the Universal Service Administrative Company ("Client"). Pursuant to the terms of the USAC Contract for Lifeline Program Forensic Audit Services dated June 22, 2018, this Report may be shared with the Federal Communications Commission ("FCC"), the Department of Justice ("DOJ"), and any other regulatory agency. 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. PwC issued a separate report to USAC Management that includes observations that are not included in this report at your request.

Sincerely,

DocuSigned by:
Sulaksh Shah
B621CF034DD84FA...
February 3, 2022

Sulaksh R. Shah
Partner
PricewaterhouseCoopers Advisory Services LLC

1. Table of Contents

Glossary of terms:

Abbreviations	Definitions/Full Names
CASS	Coding Accuracy Support System
ETC	Eligible Telecommunications Carrier
I-WIRELESS	I-Wireless, LLC
NLAD	National Lifeline Accountability Database
OPH	One-Per-Household
SAC	Study Area Code
SPIN	Service Provider Identification Number
SUBSCRIBER DATA	List of Subscribers provided by I-Wireless that support I-Wireless' 2017 FCC Forms 497
USPS	United States Postal Service

1.0 Executive Summary

Based on our analysis of the data and documentation provided by I-Wireless, LLC ("I-Wireless") to date, the following is a summary of our preliminary observations / exceptions on non-compliance with program rules related to I-Wireless' participation in the 2017 Lifeline program.

Finding #	Finding Description	Monetary Effect	Overlapping Exceptions[2]	Recommended Recovery[3]	Extrapolated Value ($)
1	**47 C.F.R. § 54.410(d)(2) – Inadequate Documentation: Eligibility Documentation – Subscriber Name** The Subscriber names on the Eligibility Documentation were not consistent with those in the Subscriber Data.	$65	$0	$65	$90,655
Total Net Monetary Effect		**$65**	**$0**	**$65**	**$90,655**

1.1 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.

2.0 Scope and Procedures Performed

Our scope of work and procedures performed are outlined below:

2.1 Scope

The scope of this forensic audit includes, but is not limited to: examining on a test basis, evidence supporting I-Wireless's compliance with the Lifeline Program rules in order to be eligible for Lifeline Program disbursements for the twelve-month period ended December 31, 2017, for the following I-Wireless SACs, based on its FCC Forms 497:

SAC and State	Number of Subscribers	Amount of Support
SAC# 219018 - Florida	156,808	$10,483,721
SAC# 159023 - New York	163,301	$10,993,154
Total	**320,109**	**$21,476,875**

[2] 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.

[3] If USAC management seeks recovery for these findings, PwC recommends that the recovery be in these amounts.

2.2 Procedures Performed

We performed the following procedures to test compliance with certain Lifeline Program rules:

1. Certification (Application) Test

We examined the certification forms for a statistically valid sample of Subscribers to confirm that the Subscribers appropriately enrolled and certified their eligibility in the Lifeline Program.

2. Program Eligibility Test

We examined the eligibility documentation for a statistically valid sample of Subscribers to confirm that the carrier appropriately confirmed the Subscriber's participation in one of the qualifying eligibility programs or met the income threshold for the Lifeline Program.

3. One-per-Household Test

We examined One-per-Household documentation for a statistically valid sample of Subscribers to confirm that the Subscribers appropriately certified that they comply with the One-per-Household requirements.

4. Recertification Test

We examined the recertification forms for a statistically valid sample of Subscribers to confirm that the Subscribers appropriately recertified their eligibility in the Lifeline Program.

5. Recertification (FCC Form 555) Test

We examined the recertification results (de-enrollment) reported on I-Wireless' 2016 FCC Form 555 to confirm that I-Wireless de-enrolled those Subscribers reported as such. If we identified Subscribers who were reported as de-enrolled in 2016 but later claimed by I-Wireless in 2017 (on an FCC Form 497), we confirmed that I-Wireless appropriately re-enrolled and certified the Subscribers.

6. Pass-Through Test

We examined pass-through documentation for a statistically valid sample of Subscribers to confirm that I-Wireless provided its Subscribers with Lifeline Program support.

7. Usage Test

We examined usage documentation for a statistically valid sample of Subscribers to confirm that the carrier only claimed Subscribers who used the Lifeline service within the required timeframe. The scope of this audit did not include a walk-through of carrier systems that originate and process usage events from start-to-end for all types of subscribers or a walk-through of carrier billing systems and any other systems or applications used to identify and track usage activity.

8. Deceased Subscriber Test

For those Subscribers who were identified as potentially deceased, we examined usage and certification/recertification documentation for a statistically valid sample to identify whether services were provided and benefits were received post-death.

3.0 Forensic Audit Findings

Finding 1: 47 C.F.R. § 54.410(d)(2) – Inadequate Documentation: Eligibility Documentation – Subscriber Name

Condition

We obtained and analyzed Eligibility Documentation for a sample of 228 Subscribers claimed on the FCC Forms 497 for the calendar year 2017 to determine whether the Subscribers' demographic information included on the Subscribers' Eligibility Documentation matched that included in the Subscriber Data. We identified two (2) Subscribers in our sample of 228 who were enrolled in the Lifeline Program through I-Wireless' manual review of the Subscribers' Eligibility Documentation; however, the names on the Eligibility Documentation did not match the Subscriber names included in the Subscriber Data.

Ref.	Difference	Number of Subscribers	Subscriber Data (Example Name)	Eligibility Documentation (Example Name)
A	Different First and Last Names	1	John Doe	Mary Smith
B	Different Last Name	1	John Doe	John Smith
	Total	**2**		

Cause

I-Wireless stated that one name listed on the Eligibility Documentation belonged to that of the Subscriber's Benefit Qualifying Person ("BQP"). The 2016 Lifeline Program rules allow a BQP, which is one of the subscriber's dependents or a member of their household, to qualify the household using program-based criteria. When an ETC qualifies a household through a BQP, the ETC must keep records that show that a BQP was used to qualify the household, rather than the subscriber. In this case, I-Wireless provided a letter of participation issued by the State of Florida Department of Children and Families confirming the BQP's participation in the Medicaid program. However, I-Wireless did not provide supporting documentation evidencing that the eligibility documentation was for a BQP, whose eligibility documentation was used to qualify the subscriber.

Additionally, I-Wireless stated that one Subscriber changed his/her last name after enrolling in the Lifeline Program. However, proof of name change documentation for this Subscriber was not available.

Monetary Effect

I-Wireless improperly claimed reimbursement for two (2) Subscribers referenced above, as summarized below:

SAC	State	Number of Unique Subscribers with Observations / Exceptions	(A) Total Number of Instances for which the Subscribers were Claimed on FCC Forms 497 in 2017	(A) * $9.25 Monetary Effect	Overlapping Recovery	Recommended Recovery
219018	FL	2	7	$65	$0	$65

SAC	State	Number of Unique Subscribers with Observations / Exceptions	(A) Total Number of Instances for which the Subscribers were Claimed on FCC Forms 497 in 2017	(A) * $9.25 Monetary Effect	Overlapping Recovery	Recommended Recovery
TOTAL		2	7	$65	$0	$65

Extrapolation of Improperly Claimed Reimbursement

As summarized in the chart below, the sample findings were extrapolated to the population:

ETC	Extrapolated Reimbursement Impact of Months Claimed on FCC Form 497 in 2017($)	Estimated Error Rate (%)	Lower Bound with 90% Confidence	Upper Bound with 90% Confidence
I-Wireless	$ 90,655	0.42%	0.00%[4]	1.02%

Recommendation

If USAC management seeks recovery for this finding, PwC recommends that the recovery be in the amount of $65.

To demonstrate compliance with Lifeline Program rules, I-Wireless should ensure that the Subscriber's demographic information is correct, complete, and consistent across all Lifeline Program documentation.

Beneficiary Response

- Account # 11646224 – This customer enrolled in the Lifeline program using the Medicaid document of her Benefit Qualifying Person. Document shows the DOB of the person receiving Medicaid. DOB of the person receiving Medicaid is valid. Eligibility documentation is valid. Disagree with finding.

- Account # 11742139 – This customer experienced a last name change either through marriage, divorce, or some other court-approved name change. Agree with finding.

PwC Response

As noted in the Cause section above, for Account #11646224, the 2016 Lifeline Program rules require that, when a subscriber seeks to qualify for the Lifeline Program using the program-based criteria, the ETC must confirm the subscriber's program-based eligibility. This confirmation by necessity requires the ETC to confirm the relationship between the subscriber and the BQP and to confirm that the BQP was in fact receiving benefits under the identified qualifying assistance program. In this case, I-Wireless provided a letter of participation issued by the State of Florida Department of Children and Families confirming the BQP's participation in the Medicaid program. However, I-Wireless did not provide

[4] The calculated 90% lower confidence bound for the estimated payment errors is less than zero. Thus, the lower bound was capped at zero dollars

supporting documentation evidencing that I-Wireless had confirmed the relationship between the subscriber and the BQP listed in the Eligibility Documentation.

For Account # 11742139, we do not have further comments as I-Wireless agrees with the finding.

Criteria Section

Finding #	Criteria	Description
1	47 C.F.R. § 54.410(d)	(d) *Eligibility certification form*. 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. (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. (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.

Finding #	Criteria	Description
		(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).

Appendix A: Sampling Methodology

This document provides an overview of the statistical sampling methodology used to select samples for the forensic audits of the Lifeline Program for I-Wireless. PwC completed the following tests:

1. Certification (Application)
2. Program Eligibility
3. One-Per-Household
4. Recertification
5. Recertification (FCC Form 555)
6. Pass-Through Documentation
7. Usage Documentation

To perform these tests, we selected the following statistical samples:

- Multi-purpose sample (Tests 1, 2, 4, 6, and 7)
- One-per-Household sample (Test 3)

Test 5 was conducted on the entire population; therefore, no sample was selected for Test 5.

Population

The population for each sampling based test is noted in the table below:

Test Number	Test	Population
1	Certification (Application)	Lifeline subscribers claimed on the 2017 FCC Forms 497
2	Program Eligibility	Lifeline subscribers claimed on the 2017 FCC Forms 497
3	One-Per-Household	Lifeline subscribers claimed on the 2017 FCC Forms 497 with duplicate addresses (same address, different subscriber)
4	Recertification	Lifeline subscribers claimed on the 2017 FCC Forms 497
5	Recertification (FCC Form 555)	N/A - Not a statistical sample
6	Pass-Through Documentation	Lifeline subscribers claimed on the 2017 FCC Forms 497
7	Usage Documentation	Lifeline subscribers claimed on the 2017 FCC Forms 497

Sample Frame

The sample frame (the list from which the sample is selected) for each test is shown below:

Test Number	Test	Sampling Frame
1	Certification (Application)	Unique subscribers from the 2017 FCC Forms 497 subscriber lists provided by I-Wireless
2	Program Eligibility	Unique subscribers from the 2017 FCC Forms 497 subscriber lists provided by I-Wireless
3	One-Per-Household	Unique subscribers from the 2017 FCC Forms 497 subscriber lists provided by I-Wireless including only those subscribers that have an address that appears more than once. Addresses that were identified as businesses or high rises were excluded.
4	Recertification	Unique subscribers from the 2017 FCC Forms 497 subscriber lists provided by I-Wireless
5	Recertification (FCC Form 555)	N/A - Not a statistical sample
6	Pass-Through Documentation	Unique subscribers from the 2017 FCC Forms 497 subscriber lists provided by I-Wireless

Test Number	Test	Sampling Frame
7	Usage Documentation	Unique subscribers from the 2017 FCC Forms 497 subscriber lists provided by I-Wireless

The following table details the sampling frame for each sample:

ETC	SAC	Population Size Tests 1, 2, 4, 6, 7	Population Size Test 3
I-Wireless, LLC	I-Wireless, LLC – NY	163,301	31,261
	I-Wireless, LLC – FL	156,808	29,739
	Total	**320,109**	**61,000**

Sample Unit
For each sample, the sample unit is a unique Lifeline subscriber.

Sample Design
A stratified random sample methodology was applied to each population. The sample frame was stratified based on the SAC. For I-Wireless, there were two strata: I-Wireless NY and I-Wireless FL.

Sample Size
The sample size was determined based on the number of strata and sample items needed to achieve a 90% confidence level with 5% precision and assuming an exception rate no higher than 30%. The assumed exception rate of 30% was selected as a starting point based on our review of the GAO report. The following formula was used to determine sample size:

$$n = \frac{\left(\dfrac{CI^2 \cdot PQ}{Prec^2}\right)}{1 + \dfrac{1}{N}\left(\dfrac{CI^2 \cdot PQ}{Prec^2} - 1\right)}$$

Where:
N = the population size
CI = confidence factor (1.645 for 90% confidence)
P = the expected rate of occurrence for the attribute of interest
$Q = 1 - P$
$Prec$ = the desired precision level (5%)

Under these parameters, the minimum sample size per population is 228. The calculated sample size was allocated to the strata based on the percentage of the population that is represented by that stratum. For example, if a stratum is 50% of the population, then 50% of the sample was be allocated to that stratum. A minimum of 30 items were selected in each SAC stratum.

Based on the subscriber data provided, sample sizes per stratum are shown below:

ETC	SAC	Sample Size Tests 1, 2, 4, 6, 7	Sample Size Test 3
I-Wireless, LLC	I-Wireless, LLC – NY	116	117
	I-Wireless, LLC – FL	112	111
	Total	**228**	**228**

Sample Selection
Sample items were selected using a random number generator in SAS (statistical software).

Extrapolation
Sample findings for each test were extrapolated to the population as necessary. The estimated population exception rate was estimated using the below formula for attribute sampling.

$$\hat{P} = \frac{\sum_{h=1}^{s} N_h \hat{p}_h}{\sum_{h=1}^{s} N_h}$$

Where:
P = the estimated exception rate for the population
N_h = the population size for the h^{th} stratum
p_h = the observed exception rate for the h^{th} stratum
S = the number of strata

A 90% confidence interval was produced for each test.
Extrapolated results for each test are shown in the following table:

Finding	Related Test	Estimated Error Rate	Lower Bound at 90% Confidence	Upper Bound at 90% Confidence
1	Program Eligibility	0.42%	0.00%[5]	1.02%

[5] The calculated 90% lower confidence bound for the estimated payment errors is less than zero. Thus, the lower bound was capped at zero dollars