High Cost and Low Income Committee Meeting

Audit Reports Briefing Book

Monday, July 25, 2022

Available For Public Use

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

<u>Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: April 2022</u>

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Bulloch County Rural **Attachment A**	2	• No significant findings.	$3,963,722	$10,306	$10,306	N
Pioneer Telephone Cooperative, Inc. **Attachment B**	1	• No significant finding.	$3,274,272	$1,957	$1,957	N
Scio Mutual Telephone Association **Attachment C**	1	• No significant finding.	$3,890,813	$4,423	$4,423	N
Total	**4**		**$11,128,807**	**$16,686**	**$16,686**	

Attachment A

HC2021LR015

Available For Public Use

Bulloch County Rural
Audit Reference ID: HC2021LR015
(SAC No.: 220348)

Performance audit for the Universal Service High Cost Program - Disbursements made during the twelve-month period ended December 31, 2019

Prepared for: Universal Service Administrative Company

As of Date: 03/25/2022

KPMG LLP
1021 E Cary St #2000
Richmond, VA 23219

TABLE OF CONTENTS

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

EXECUTIVE SUMMARY

March 25, 2022

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to Bulloch County Rural Study Area Code ("SAC") No. 220348 ("Bulloch" or "Beneficiary") for disbursements, of $3,963,722 made from the Universal Service High Cost program during the twelve-month period ended December 31, 2019. Our work was performed during the period from June 21, 2021 to March 25, 2022, and our results are as of March 25, 2022.

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

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost program (collectively, the "FCC Rules") relative to disbursements, of $3,963,722, made from the High Cost program during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG identified two findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost program for the twelve-month period ended December 31, 2019 were $10,306 higher than they would have been had the amounts been reported properly.

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

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated March 25, 2022.

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

Sincerely,

KPMG LLP

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

List of Acronyms

Acronym	Definition
ARC	Access Recovery Charge
BLS	Broadband Loop Support
Bulloch	Bulloch County Rural
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF	Connect America Fund
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
COE	Central Office Equipment
CPR	Continuing Property Record
FCC	Federal Communications Commission
Form 509	CAF BLS Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
ICLS	Interstate Common Line Support
ILEC	Incumbent Local Exchange Carrier
MUS	Monetary Unit Sampling
NECA	National Exchange Carrier Association
SAC	Study Area Code
SLC	Subscriber Line Charge
SVS	Safety Valve Support
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[1]
HC2021LR015-F01: 47 C.F.R. § 54.7(a),(b); FCC 18-29 Public Notice - Support Not Used for Intended Purposes – The Beneficiary included disallowed expenses within regulated Corporate Operations Expense accounts.	$7,527
HC2021LR015-F02: 47 C.F.R. § 32.2(a),(b) - Improper Distribution of Overhead Amounts – The Beneficiary inappropriately cleared specific overhead expense amounts to ineligible and/or inaccurate expense accounts.	$2,779
Total Net Monetary Effect	$10,306

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

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 220348 for the High Cost Program support in the amount noted in the chart below. Note: In the event that the total monetary effect and recovery results in an underpayment, USAC's High Cost Program management will not pay additional support.

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

	HCL (A)	**BLS (B)**	**CAF ICC (C)**	**USAC Recovery Action (A) + (B) + (C)**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	$5,016	$2,511	$0	$7,527	
Finding #2	$2,013	$766	$0	$2,779	
Mechanism Total	$7,029	$3,277	$0	$10,306	

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

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

1. HCL: HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following sub-component:
    a. SVS: SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. CAF ICC: CAF ICC support is available to ILECs to recover revenue that is not covered by the ARC to the end user.
3. CAF BLS: CAF BLS provides support for voice and broadband service, including stand-alone broadband. CAF BLS provides support for rate-of-return carriers to the extent that SLC caps do not permit them to recover their common line revenue requirements. CAF BLS replaced ICLS effective July 1, 2016.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost program relative to disbursements of $3,963,722, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Bulloch County Rural (SAC No. 220348), the subject of this performance audit, is a rural ILEC located in Statesboro, GA that serves over 8,400 customers, based primarily in Georgia. Bulloch provides voice, internet, video, and other telecommunications services.

The Beneficiary has two wholly owned subsidiaries, Bulloch Net, Inc. and Bulloch Cellular, Inc., as well as an 85% share of Capstone, Inc., via Bulloch Cellular. Bulloch provides cellular, internet, and technology solutions services through these noted affiliates.

In the table below, we show the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2019 by High Cost fund type:

High Cost Support	Disbursement Amount
CAF BLS	$2,916,300
CAF ICC	$299,646
HCL	$747,776
Total	$3,963,722

Source: USAC

The Beneficiary received High Cost support during the twelve-month period ended December 31, 2019, based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2018-1 HCL Form, based on the twelve-month periods ended December 31, 2017,
- 2018 FCC Form 509, based on calendar year 2017 data, and
- 2018 CAF ICC Form, based on program year 2017 data

In the above referenced forms, the High Cost Program beneficiaries provide line count data and the totals of certain pre-designated G/L Accounts including all asset accounts that roll into the TPIS account as well as certain deferred liabilities and operating expenses, subject to the allocation between regulated and non-regulated activities (Part 64 Cost Allocations), the separation between interstate and intrastate operations (Part 36 Separations) and the separation between access and non-access elements (Part 69 Separations). In addition, beneficiaries must submit certain annual investment data, including the categorization of COE and C&WF on the High Cost program Forms.

OBJECTIVES

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost program relative to disbursements, of $3,963,722, made from the High Cost program during the twelve-month period ended December 31, 2019.

SCOPE

The scope of this performance audit included, but was not limited to, review of High Cost program forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the High Cost program forms or other correspondence, and evaluation of disbursement amounts made by the Beneficiary or potentially due to the Beneficiary. The scope of our work was focused on the High Cost program forms or other correspondence filed by the Beneficiary that relate to disbursements made from the High Cost program during the twelve-month period ended December 31, 2019, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the High Cost program during the twelve-month period ended December 31, 2019.

KPMG identified the following areas of focus for this performance audit:[2]

1. Materiality Analysis
2. Reconciliation
3. Assets
4. Expenses
5. High Cost program filings
6. COE Categorization
7. C&WF Categorization
8. Overheads
9. Taxes
10. Part 64 Cost Allocations
11. Affiliate Transactions
12. Revenues, Subscriber Listings and Billing Records
13. Revenue Requirement

PROCEDURES

1. Materiality Analysis

For applicable High Cost program Forms, we obtained the forms submitted for the period ended December 31, 2017 and used the data as inputs in our High Cost program materiality analysis models. Our materiality analysis included increasing and decreasing the account balances by +/- 50%; if the impact generated a +/- 5% or $100,000 change to overall disbursements, the individual line item/account was considered material for the purposes of our performance audit.

2. Reconciliation

KPMG obtained the audited 2017 financial statements and reconciled to the G/L, from the G/L we reconciled to the Part 64 cost allocation inputs and then to the applicable High Cost program forms.

3. Assets

KPMG utilized a monetary unit sampling (MUS)[3] methodology to select 31 asset samples from material accounts identified in the relevant High Cost program forms. We made asset selections from CPR details, and material accounts including COE and C&WF asset accounts. We assessed whether asset balances were properly supported by underlying documentation such as: work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs. We then agreed the dollar amounts charged for the assets to the third-party invoices and verified proper Part 32 categorization.

[2] If exceptions (instances of material noncompliance with the FCC Rules) were noted in areas other than the in-scope areas as a result of our testing procedures and the execution of our performance audit, we identified those findings in the 'Results' section of the report.

[3] Monetary unit sampling (MUS) is a random-based sampling approach.

4. **Expenses**

   KPMG utilized a MUS methodology to randomly select 32 samples along with additional judgmental selections for Account 6720, including payroll from material operating expense accounts identified in the relevant High Cost program forms. We agreed expense amounts to the supporting documentation such as invoices and were reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and the associated accumulated depreciation amounts.

5. **High Cost program filings**

   For the relevant High Cost program forms (HCL, CAF BLS, and CAF ICC), we confirmed completeness of reported accounts through reconciliations of account totals to the audited financial statements. All material reconciling items were discussed and confirmed with the Beneficiary.

6. **COE Categorization**

   KPMG reviewed the methodology established by the Beneficiary for COE categorization including the process for updating the relevant network mapping and COE cost studies. We also performed a virtual physical inspection of sample selected items and obtained photographic evidence of the inspected items. We assessed whether COE amounts reconciled to studies including reviewing power and common allocations, Part 36 inputs and whether amounts agreed to the HCL form data.

7. **C&WF Categorization**

   KPMG reviewed the methodology established by the Beneficiary for C&WF categorization including the process for updating the relevant network mapping and C&WF cost studies. We assessed whether C&WF amounts reconciled to studies and whether amounts agreed to the HCL form data and also performed a route distance inspection of a sample selected line route.

8. **Overheads**

   KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2017. Additionally, we reviewed overhead clearing reports for the entire year and reviewed the overhead clearance process for compliance with Part 32 requirements.

9. **Taxes**

   KPMG determined the tax filing status for the Beneficiary is a tax-exempt co-operative. KPMG obtained and reviewed the Form 990 and noted that the beneficiary is not required to pay federal or state income taxes due to its filing status. KPMG validated only property taxes were included on the High Cost program forms.

10. **Part 64 Cost Allocations**

    KPMG reviewed the Beneficiary's cost apportionment methodology and performed procedures to evaluate the apportionment factors which included performing a walkthrough with the Beneficiary and evaluating the reasonableness of the cost pool and regulated/non-regulated apportionment factors as compared to regulated and non-regulated activities performed by the Beneficiary, assessing the reasonableness of the allocation methods and corresponding data inputs used to calculate the material factors and recalculating each of the material factors.

11. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that occurred during 2017. For Bulloch Cellular, these included Fiber Lease, Wholesale Broadband, Billing & Collections, Switching Services, and Interconnect transactions. For Bulloch Net, these included Internet Service Provider, Billing & Collections and Broadband Billed transactions. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the 13 samples selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and 47 C.F.R. Section 36.2, and categorized in alignment with appropriate Part 32 accounts.

12. Revenues, Subscriber Listings and Billing Records

KPMG examined revenue G/L accounts, billing registers, and other related documentation to verify the accuracy and existence of revenue account balances. KPMG noted that monthly subscriber invoices were not retained by the Beneficiary, but the monthly billing registers provided sufficient customer billing detail for sample testing purposes. KPMG analyzed subscriber listings and billing records to assess that the number and type of lines reported in the High Cost program filings agreed to underlying support documentation that subscriber listings did not include duplicate lines, invalid data, or non-revenue producing or non-working loops, and that lines were properly classified as residential/single-line business or multi-line business.

13. Revenue Requirement

KPMG reviewed the calculation of the Beneficiary's revenue requirement, including assessing the reasonableness and application of Part 64 cost allocation, Part 36 and Part 69 separations and other cost study adjustments utilized in the calculation of the common line revenue requirement.

RESULTS

KPMG's performance audit results include a listing of findings, recommendations, Beneficiary responses, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules, applicable to the disbursements made from the High Cost program during the twelve-month period ended December 31, 2019. USAC Management is responsible for any decisions and actions resulting from the findings or recommendations noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

Through its audit, KPMG identified two findings and discusses the findings, including the condition, cause, effect, recommendation and Beneficiary Response as follows:

Finding # HC2021LR015-F01: 47 C.F.R. §54.7(a),(b); FCC 18-29 Public Notice - Support Not Used for Intended Purposes

CONDITION

To determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes, KPMG obtained and examined a sample of 32 operating and payroll expenses totaling $954,565, utilizing a MUS sampling approach with additional judgmental selections. KPMG analyzed transactions recorded within expense accounts for potential expenses unrelated to the provision of regulated services. KPMG reviewed the general ledger details of these accounts (for the period of January 1, 2017 to December 31, 2017) for transactions that do not support provision, maintenance, and upgrading of facilities and services. Through our analysis and reconciliation of the Beneficiary's G/L, we identified three food and meal related disallowed expense transactions, totaling $9,662, recorded as regulated Operations expenses within Account 6720 – General and Admin Expense; two of the disallowed expenses were included within our initial sample selections, with one additional disallowed expense identified based on our review of similar expenses in the G/L. The Beneficiary recorded these transactions in the regulated Corporate Operations Expense accounts:

Expense Type	# of Transactions	Amount ($)
Food	3	$9,662

CAUSE

The Beneficiary's process to prepare, review and approve the recording of regulated costs did not detect the improper inclusion of disallowed expenses in regulated expense accounts.

EFFECT

KPMG calculated the monetary impact of this finding by subtracting or adding the value of the overstatement from, or understatement to, the total amount reported by the Beneficiary in its respective accounts or line items on the HC forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an over-payment of $7,527 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$5,016
CAF BLS	$2,511
CAF ICC	N/A
Total	$7,527

RECOMMENDATION

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

KPMG recommends that the Beneficiary enhance controls and procedures related to preparation, review and approvals related to the calculation, recording, and reporting of regulated expenses. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Bulloch Telephone does not dispute the findings of the food related expense transactions in 2017. These transactions were for employee awards and recognition which provided motivation and incentives for employees to provide high quality service to its customers in all aspects including customer service, response time, maintaining facilities, upgrading the network, etc. The findings reference FCC 18-29 which provided clarification and guidance on such expenses and was codified in 2018.

In response to the publication of FCC 18-29, the Company removed all employee recognition banquets from cost study submission beginning in 2018 and years thereafter. The activity in question occurred prior to the enactment of FCC 18-29 and thus was not excluded. We believe the retroactive enforcement of this policy is not appropriate. However, because the results are not material to our operations, we will not dispute this finding.

KPMG RESPONSE

FCC Order 18-29 was established in 2018 in order to provide clarification of requirements already established under FCC Order 16-33, enacted in 2016. In paragraph 340 of FCC 16-33, the FCC stated eligible telecommunications carriers (ETCs)

> "…may not recover certain types of expenses through high-cost support. Those expenses include the following: personal travel; entertainment; alcohol; food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; political contributions; charitable donations; scholarships; penalties or fines for statutory or regulatory violations; penalties or fees for any late payments on debt, loans, or other payments; membership fees and dues in clubs and organizations; sponsorships of conferences or community events; gifts to employees; and, personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages…"

Consistent with section 54.7 of the Rules and FCC 18-29, Beneficiary may only seek support for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

Finding # HC2021LR015-F02: 47 C.F.R. § 32.2(a),(b) – Improper Distribution of Overhead Amounts

CONDITION

KPMG examined the overhead clearing reports for the month ended March 31, 2017 and determined that the Beneficiary improperly cleared specific overhead expense amounts from Account 6112 – Motor Vehicle Expense and Account 6116 – Other Work Equipment Expense for the selected month to ineligible expense accounts, Account 6530 – Network Operations Expense and Account 6720 – General and Administrative Expense.

Additionally, the Beneficiary configured its G/L system configured to clear all overhead expenses based on direct labor hours. As a result, it did not appropriately clear Account 6512 – Provisioning Expense using cost of materials. However, as this account was only cleared to a non-regulated expense account, there was no impact on support.

Below, we summarize the inappropriately cleared overhead accounts and amounts for the month ended March 31, 2017:

Account 6112 – Motor Vehicle Expense

Overhead Expense Account	Original Allocated Amount ($)	Revised Allocated Amount ($)	Variance ($)
1190 – Accounts Receivable	$1,755	$2,917	$1,162
2003 – Total Plant Under Construction	$1,284	$2,510	$1,226
3100 – Accumulated Depreciation C&WF	$62	$102	$40
6230 – Central Office Transmission Equipment Expense	$1,477	$2,455	$978
6300 – Non-Reg Expenses	$1,283	$2,131	$848
6410 – Cable and Wire Facilities	$938	$1,559	$621
6530 – Network Operations Expense	$4,627	$0	($4,627)
6720 – General Admin Expenses	$248	$0	($248)
Total	**$11,674**	**$11,674**	**$0**

Note: A positive variance represents under-allocation and a negative variance represents over-allocation.

Account 6116 – Other Work Equipment Expense

Overhead Expense Account	Original Allocated Amount ($)	Revised Allocated Amount ($)	Variance ($)
1190 – Accounts Receivable	$194	$322	$128
2003 – Total Plant Under Construction	$142	$278	$136
3100 – Accumulated Depreciation C&WF	$7	$11	$4
6230 – Central Office Transmission Equipment Expense	$163	$272	$108
6300 – Non-Reg Expenses	$142	$236	$94
6410 – Cable and Wire Facilities	$104	$172	$69
6530 – Network Operations Expense	$512	$0	($512)
6720 – General Admin Expenses	$27	$0	($27)
Total	**$1,291**	**$1,291**	**$0**

Note: A positive variance represents under-allocation and a negative variance represents over-allocation

CAUSE

The Beneficiary's process to prepare, review and approve the clearing of benefits and overhead amounts did not detect the allocation of amounts to incorrect Part 32 accounts or use of direct labor dollars rather than direct labor hours. The Beneficiary noted the allocation basis and the accounts used for clearing overhead accounts had been established by the Beneficiary's prior management team and the existing cost accounting practices was not reviewed by the current team for accuracy and compliance with requirements applicable to the clearing of overhead expenses.

EFFECT

KPMG calculated the monetary impact of this finding by subtracting or adding the value of the overstatement from, or understatement to, the total amount reported by the Beneficiary in its respective accounts or line items on the HC forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an over-payment of $2,779 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$2,013
CAF BLS	$766
CAF ICC	N/A
Total	$2,779

RECOMMENDATION

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

KPMG recommends that the Beneficiary evaluate and update the methodology used for clearing overhead to the appropriate Part 32 expense accounts. Management should develop a formal process to perform continuous reviews of previously established cost treatments, especially when the transitions occur within the Management team to ensure compliance with FCC Rules. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Bulloch Telephone does not dispute the impact of this finding. Expenses were inappropriately cleared using direct labor hours instead of the prescribed cost of materials. This action was corrected in January 2021 and expense clearing is being performed as prescribed for all periods after December 2020.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.7(a),(b) (2017)	"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. The use of federal universal service support that is authorized by paragraph (a) of this section shall include investments in plant that can, either as built or with the addition of plant elements, when available, provide access to advanced telecommunications and information services."
#1	*Connect America Fund, et. al.,* Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, Public Notice, FCC 18-29 (rel. Mar. 23, 2018)	"Entertainment and food and beverage expenses, including but not limited to expenses incurred for meals to celebrate personal events, such as weddings, births, or retirements, are explicitly not recoverable through high-cost support."
#2	47 C.F.R. § 32.2(a),(b) (2017)	"The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure. Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers."
#2	47 C.F.R. § 32.6112(b) (2017)	"Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours."

Finding	Criteria	Description
#2	47 C.F.R. § 32.6114(b) (2017)	“Credits shall be made to this account for amounts related to special purpose vehicles and other work equipment transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.”
#2	47 C.F.R. § 32.6512(b) (2017)	“Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge.”

CONCLUSION

As discussed in detail above, in our evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 relevant to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, KPMG identified: expenses support not used for intended purposes and inappropriate clearing of overhead expenses findings.

KPMG estimates the combined monetary impact of these findings as follows:

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	$7,029
CAF BLS	$3,277
CAF ICC	$0
Total Impact	$10,306

KPMG recommends that the Beneficiary enhance the preparation, review and approval processes related to recording allowable expenses and clearing overheads to ensure its compliance with FCC Rules.

** This concludes the audit report.**

Attachment B

HC2021LR006

Pioneer Telephone Cooperative, Inc.

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

USAC Audit No. HC2021LR006

TABLE OF CONTENTS

EXECUTIVE SUMMARY

March 3, 2022

Nick Kretchmar
Division Manager
Pioneer Telephone Cooperative, Inc.
108 East Robberts Avenue
Kingfisher, OK 73750

Dear Nick Kretchmar:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Pioneer Telephone Cooperative, Inc.'s (Beneficiary), study area code 432018 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, 54, 64, and 69, as well as other program requirements (collectively, Federal Communication Commission (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 disclosed one detailed audit finding (Finding), 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 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 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

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect and Recommended Recovery[1]
Finding: 47 C.F.R. § 51.917(d)(1)(iv) – Inaccurate True-Up Adjustment: Exogenous Cost. The Beneficiary erroneously included non-regulated regulatory fees in its calculation of exogenous cost	$1,957
Total	**$1,957**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit result and will seek recovery from the Beneficiary for SAC 432018 for the High Cost Program support amount noted in the chart below. 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.

	CAF ICC	USAC Recovery Action
Finding	$1,957	$1,957

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)	2016-2019	2019	$3,274,272

BACKGROUND

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

[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.

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 consistent with and based on the dates established by FCC Rules (*i.e.,* month or year-end, as appropriate).

C. Revenues

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

DETAILED AUDIT FINDING

FINDING: 47 C.F.R. § 51.917(d)(1)(iv) – Inaccurate True-Up Adjustment: Exogenous Cost

CONDITION

AAD obtained and examined the Beneficiary's CAF ICC true-up documentation to determine whether the Beneficiary reported accurate exogenous cost amounts for High Cost program purposes. Exogenous Costs for CAF ICC program purposes are defined as Telecommunication Relay Service (TRS), North American Number Plan Association (NANPA), and FCC Regulatory fees.[2] Because the Beneficiary is a rate-of-return company and its Subscriber Line Charge (SLC) is at the maximum rate, FCC Order DA 12-575 states that it may recover the incremental increase in exogenous costs attributable to interstate switched access when compared to the base year of 2011 (reported in its 2012 tariff filing).[3] In calculating its incremental exogenous costs, the Beneficiary included FCC regulatory fees associated with its non-regulated cable and cellular business in its Part 64 Cost Study. As a result of including costs from its non-regulated business activities to calculate its exogenous costs, the Beneficiary overstated exogenous cost on its CAF ICC Form.

AAD calculated the exogenous costs by determining the incremental increase in the TRS, NANPA, and FCC Regulatory fees attributable to interstate switch access rates that were higher than the reported amounts in the Beneficiary's 2012 tariff filing and summarizes the variance in the following table:

Exogenous Cost Reported to USAC A	Exogenous Cost Calculated by AAD B	Variance C=A-B
$44,639	$40,717	$3,922

Because the Beneficiary included regulatory fees associated with its cable and cellular business to calculate its exogenous cost, AAD concludes that the Beneficiary did not accurately report its exogenous costs. The Beneficiary must report accurate exogenous costs associated with regulated activities only for High Cost program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate exogenous costs for High Cost program purposes. When preparing the CAF ICC Exogenous cost data, FCC Regulatory Fees were identified using the company general ledger. The journal entry did not distinguish between regulated ILEC costs and non-regulated costs separately, and the CAF ICC preparer was not aware it included non-regulated costs.[4]

[2] *Material to be Filed in Support of 2012 Annual Access Tariff Filings*, WCB/Pricing File No. 12-08, DA 12-575, Order, (Wir. Comp. Bur. 2012)
[3] *Id.*
[4] *See* 47 CFR § 64.901(a).

EFFECT

AAD calculated the monetary effect for this finding by deducting the variance noted above from the exogenous cost amounts reported for the July to December 2019 disbursement period. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
CAF ICC	$1,957[5, 6]

RECOMMENDATION

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

The Beneficiary must ensure that it has an adequate system to report accurate data for CAF ICC purposes. Specifically, the Beneficiary must use regulatory fees associated with its regulated business activities to calculate exogenous cost. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

When preparing the CAF ICC Exogenous cost data, FCC Regulatory Fees were identified using the company General Ledger. The journal entry did not distinguish between regulated ILEC costs and non-regulated costs separately, and the CAF ICC preparer was not aware it included non-regulated costs.

To correct this problem when preparing the CAF ICC Exogenous cost data the CAF ICC preparer will request copies of the specific invoices and/or a breakdown of all regulatory fees paid by type (regulated vs non-regulated) to ensure only proper fees are included.

CRITERIA

Criteria	Description
47 C.F.R. § 51.917(d)(1)(iv) (2017)	Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the

[5] Under the CAF ICC program year rules, funds are disbursed on a July to June basis, with true-up payments disbursed two years after the program year. The true-up payment for the 2016 – 2017 CAF ICC program year was disbursed from July 2018 to June 2019 (based on data submitted in June 2018) and the true-up payment for the 2017 – 2018 CAF ICC program year was disbursed from July 2019 to June 2020 (based on data submitted in June 2019). The audit period includes an examination of disbursements paid in 2019; therefore the monetary effect for this Finding accounts for the last six months of the 2016-2017 program year when the true-up payment occurred from January to June 2019.

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

	procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year.
47 C.F.R. § 64.901(a) (2017)	Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.
In the Matter of Material to be Filed in Support of 2012 Annual Access Tariff Filings, WCB/Pricing Files No. 12-08, DA 12-575, Order, (Wir. Comp. Bur. 2012)	For the purposes of including an increase in a mandatory fee in the SLC, price cap carriers will be permitted to raise the SLC to the maximum level permitted pursuant to sections 69.152(d)(1)(ii), 69.152(e)(1)(i), and 69.152(k)(1)(i) of the Commission's rules, and rate-of-return carriers will be permitted to raise the SLC to the maximum level permitted pursuant to section 69.104(n)(1)(ii)(c) and 69.104(o)(1)(i) of the Commission's rules. However, if the carrier is already at the maximum SLC level, the carrier will be permitted to include that portion of increases in mandatory TRS, regulatory, or NANPA fees associated with a rate that is capped in Eligible Recovery for the 2012 annual access charge tariff filing.

**This concludes the report. **

Attachment C

HC2021LR027

Scio Mutual Telephone Association Audit Reference ID: HC2021LR027 (SAC No.: 532397)

Performance audit for the Universal Service High Cost Program - Disbursements made during the twelve-month period ended December 31, 2019

Prepared for: Universal Service Administrative Company

As of Date: 3/24/2022

KPMG LLP
8350 Broad Street Suite 900
McLean, VA 22102

TABLE OF CONTENTS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

EXECUTIVE SUMMARY

March 24, 2022

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to Scio Mutual Telephone Association Study Area Code ("SAC") No. 532397 ("Scio" or "Beneficiary") for disbursements of $3,890,813 made from the Universal Service High Cost program during the twelve-month period ended December 31, 2019. Our work was performed during the period from June 22, 2021 to March 24, 2022 and our results are as of March 24, 2022.

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

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

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost program (collectively, the "FCC Rules") relative to disbursements, of $3,890,813, made from the High Cost program during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG identified one finding as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost program for the twelve-month period ended December 31, 2019 were $4,423 higher than they would have been had the amounts been reported properly.

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

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

Sincerely,

KPMG LLP

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

List of Acronyms

Acronym	Definition
ARC	Access Recovery Charge
BLS	Broadband Loop Support
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF	Connect America Fund
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
COE	Central Office Equipment
CPR	Continuing Property Record
FCC	Federal Communications Commission
Form 509	CAF BLS Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
ICLS	Interstate Common Line Support
ILEC	Incumbent Local Exchange Carrier
MUS	Monetary Unit Sampling
NECA	National Exchange Carrier Association
SAC	Study Area Code
SCV	Scio Cablevision
SLC	Subscriber Line Charge
Scio	Scio Mutual Telephone Association
SVS	Safety Valve Support
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[1]
HC2021LR027-F01: 47 CFR Part 32.2000(g)(2)(iii)- Inaccurate Depreciation Calculation – The Beneficiary used ending month balances instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules.	$4,423
Total Net Monetary Effect	$4,423

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

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 532397 for the High Cost support amount noted in the chart below. Note: in the event that the total monetary effect and recovery results in an underpayment, USAC's High Cost Program Division management will not pay additional support.

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

	HCL (A)	**BLS (B)**	**CAF ICC (C)**	**USAC Recovery Action (A) + (B) + (C)**
Finding #1	$224	$4,199	$0	$4,423
Mechanism Total	$224	$4,199	$0	$4,423

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

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

1. HCL: HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following sub-component:
    a. SVS: SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. CAF ICC: CAF ICC support is available to ILECs to recover revenue that is not covered by the ARC to the end user.
3. CAF BLS: CAF BLS provides support for voice and broadband service, including stand-alone broadband. CAF BLS provides support for rate-of-return carriers to the extent that SLC caps do not permit them to recover their common line revenue requirements. CAF BLS replaced ICLS effective July 1, 2016.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost program relative to disbursements of $3,890,813, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Scio Mutual Telephone Association (SAC No. 532397), the subject of this performance audit, is an ILEC located in Scio, Oregon and serves over 1,300 customers in the state of Oregon. Scio provides broadband and voice services. In 2017, the Beneficiary provided video services through Scio Cablevision, Inc. (SCV), its wholly-owned subsidiary.

In the table below, we show the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2019 by High Cost fund type:

High Cost Support	Disbursement Amount
CAF BLS	$3,447,265
CAF ICC	$219,072
HCL	$224,476
Total	**$3,890,813**

Source: USAC

The Beneficiary received High Cost support during the twelve-month period ended December 31, 2019, based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2018-1 HCL Form, based on the twelve-month periods ended December 31, 2017
- 2018 FCC Form 509, based on calendar year 2017 data, and
- 2018 CAF ICC Form, based on program year 2017 data

In the above referenced forms, the High Cost program beneficiaries provide line count data and the totals of certain pre-designated G/L Accounts including all asset accounts that roll into the TPIS account as well as certain deferred liabilities and operating expenses, subject to the allocation between regulated and non-regulated activities ("Part 64 Cost Allocations"), the separation between interstate and intrastate operations ("Part 36 Separations") and the separation between access and non-access elements ("Part 69 Separations"). In addition, the Beneficiary must submit certain annual investment data, including the categorization of COE and C&WF on the High Cost program Forms.

OBJECTIVES

The audit objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost program relative to disbursements of $3,890,813, made from the High Cost program during the twelve-month period ended December 31, 2019.

SCOPE

The scope of this performance audit included, but was not limited to, review of High Cost program Forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the High Cost program Forms or other correspondence, and evaluation of disbursement amounts made by the Beneficiary or potentially due to the Beneficiary. The scope of our work was focused on the High Cost program Forms or other correspondence filed by the Beneficiary that relate to disbursements made from the High Cost program during the twelve-month period ended December 31, 2019, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the High Cost program during the twelve-month period ended December 31, 2019.

KPMG identified the following areas of focus for this performance audit:[2]

1. Materiality Analysis
2. Reconciliation
3. Assets
4. Expenses
5. High Cost program filings
6. COE Categorization
7. C&WF Categorization
8. Overheads
9. Taxes
10. Part 64 Cost Allocations
11. Affiliate Transactions
12. Revenues, Subscriber Listings and Billing Records
13. Revenue Requirement

PROCEDURES

1. **Materiality Analysis**

   For applicable High Cost program Forms, we obtained the forms submitted for the period ended December 31, 2017, input the information into KPMG's High Cost program models, and ran a materiality analysis that increased and decreased the account balances by +/- 50%. If the impact generated a +/- 5% or $100,000 change to overall disbursements, the individual line item/account was considered material for purposes of our performance audit.

2. **Reconciliation**

   KPMG obtained the audited 2017 financial statements and reconciled to the G/L, which we reconciled to the Part 64 cost allocation inputs and then to the applicable High Cost program Forms.

3. **Assets**

   KPMG utilized a monetary unit sampling (MUS)[3] methodology to select 24 asset samples from material accounts identified in the relevant High Cost program Forms. We made asset selections from CPR details, and material accounts included COE and C&WF accounts. We assessed whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

[2] If exceptions (instances of material noncompliance with the FCC Rules) were noted in areas other than the in-scope areas as a result of our testing procedures and the execution of our performance audit, we identified those findings in the 'Results' section of the report.
[3] Monetary unit sampling (MUS) is a random-based sampling approach.

4. **Expenses**

KPMG utilized a MUS methodology to select 29 expense samples including payroll from material operating expense accounts identified in the relevant High Cost program Forms. We agreed expense amounts to the supporting documentation such as invoices and were reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and the associated accumulated depreciation amounts.

5. **High Cost Program Filings**

For the relevant High Cost program filings (HCL, CAF BLS, and CAF ICC) completeness of reported accounts were assessed via reconciliations to the audited financial statements via the 'Reconciliation' process described above. Irreconcilable items were discussed with the Beneficiary and support obtained to resolve differences.

6. **COE Categorization**

KPMG reviewed the methodology established by the Beneficiary for COE categorization including the process for updating the network map and COE cost studies as well as performing a physical inspection. We assessed whether COE amounts reconciled to studies including reviewing power and common allocations, Part 36 inputs and whether amounts agreed to the HCL form data.

7. **C&WF Categorization**

KPMG reviewed the methodology established by the Beneficiary for C&WF categorization including the process for updating the network map and C&WF cost studies. We assessed whether C&WF amounts reconciled to studies and whether amounts agreed to the HCL form data and also performed a route distance inspection.

8. **Overheads**

KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2017. Additionally, we reviewed overhead clearing reports for the entire year and reviewed the overhead clearance process for compliance with Part 32 requirements.

9. **Taxes**

KPMG determined that Scio is not subject to state or federal income taxes and determined that the Beneficiary is a Tax-Exempt Cooperative entity for tax filing purposes, noting that for 2017, the Beneficiary filed a Corporate Tax Return – Form 990, a tax-exempt alternative for the legal entity. KPMG reviewed the taxes included on the High Cost program forms and noted they related to property taxes.

10. **Part 64 Cost Allocations**

KPMG reviewed the Beneficiary's cost apportionment methodology and performed procedures to evaluate the apportionment factors which included performing a walkthrough with the Beneficiary and evaluating the reasonableness of the cost pool and regulated/non-regulated apportionment factors as compared to regulated and non-regulated activities performed by the Beneficiary, assessing the reasonableness of the allocation methods and corresponding data inputs used to calculate the material factors and recalculating each of the material factors.

11. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that included Rent Charges, Data Transmission, Labor, and Customer Service fees that occurred during 2017. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the nine samples selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and 47 C.F.R. Section 36.2 and categorized in the appropriate Part 32 accounts.

12. Revenues, Subscriber Listings and Billing Records

KPMG examined revenue G/L accounts, invoices and other related documentation to verify the accuracy and existence of revenue account balances. KPMG analyzed subscriber listings and billing records to assess that the number and type of lines reported in the High Cost program filings agreed to underlying support documentation, that subscriber listings did not include duplicate lines, invalid data, or non-revenue producing or non-working loops, and that lines were properly classified as residential/single-line business or multi-line business.

13. Revenue Requirement

KPMG reviewed the calculation of the Beneficiary's revenue requirement, including assessing the reasonableness and application of Part 64 cost allocation, Part 36 and Part 69 separations and other cost study adjustments utilized in the calculation of the common line revenue requirement.

RESULTS

KPMG's performance audit results include a listing of findings, recommendations and Beneficiary responses regarding the Beneficiary's compliance with FCC requirements and an estimate of the monetary impact of such findings relative to Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules, applicable to the disbursements made from the High Cost program during the twelve-month period ended December 31, 2019. USAC Management is responsible for any decisions and actions resulting from the findings or recommendations noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

Through it's audit, KPMG identified one finding and details the finding, including the condition, cause, effect, recommendation and Beneficiary Response below:

Finding #1 HC2021LR027-F01: 47 CFR § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG inspected the G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. The Beneficiary used ending month balances to compute depreciation expense, instead of average monthly balances, as prescribed by FCC Rules for the period of January 1, 2017 to December 31, 2017. KPMG summarized the net differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month period ended December 31, 2017 below:[4]

Account Description	Variance for the 12 months ended December 31, 2017
Account 3100 (2110): Accumulated Depreciation - General Support Assets	$7,969
Account 3100 (2210): Accumulated Depreciation -Central Office Switching Equipment	$194
Account 3100 (2230): Accumulated Depreciation -Central Office Transmission Equipment	$1,324
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$243
Account 6560 (2110): Depreciation and Amortization Expense – General Support Assets	$7,969
Account 6560 (2210): Depreciation and Amortization Expense – Central Office Switching Equipment	$194
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$1,324
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$243

[4] *See* 47 C.F.R. § 32.2000(g)(2)(iii) in the criteria section of the report. Additionally note 47 C.F.R. § 32.3100(c) and 47 C.F.R. § 32.2000(d)(4) referenced regarding no finding for excess accumulated depreciation recorded.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper calculation of depreciation using the appropriate methodology as prescribed by FCC Rules.

EFFECT

KPMG calculated the monetary impact of this finding by subtracting or adding the value of the overstatement from, or understatement to, the total amount reported by the Beneficiary in its respective account or line items on the HC forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an over-payment of $4,423 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$224
CAF BLS	$4,199
CAF ICC	$0
Total	$4,423

RECOMMENDATION

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

KPMG recommends that the Beneficiary enhance the preparation, review, and approval processes governing the calculation of depreciation to ensure compliance with FCC Rules and Orders. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

We acknowledge the above finding and subsequent to the 2017 information under review, we have corrected the depreciation calculation in 2019 to use the monthly average balance in the accounting system.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2)(iii) (2017)	"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."
#1	47 C.F.R. § 32.3100(c) (2017)[5]	"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."
#1	47 C.F.R. § 32.2000(d)(4) (2017)[5]	"The accounting for the retirement of property, plant and equipment shall be as provided above [47 CFR 32.3100(c) (2017)] except that amounts in Account 2111, Land, and amounts for works of art recorded in Account 2122, Furniture, shall be treated at disposition as a gain or loss and shall be credited or debited to Account 7100, Other operating income and expense, as applicable. If land or artwork is retained by the company and held for sale, the cost shall be charged to Account 2006, Nonoperating plant."

[5] Criteria applicable to the disposal of assets, *i.e.,* recording of accumulated depreciation versus a gain or loss on the sale of an asset.

CONCLUSION

As discussed in detail above, in our evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 relevant to the disbursements made from the High Cost program during the twelve-month period ended December 31, 2019, KPMG identified a Depreciation Expense finding.

KPMG estimates the monetary impact of this finding is as follows:

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	$224
CAF BLS	$4,199
CAF ICC	$0
Total Impact	$4,423

KPMG recommends that the Beneficiary enhance the preparation, review, and approval processes governing the calculation of depreciation to ensure the appropriate method is utilized to be in compliance with FCC Rules.

** This concludes the audit report.**

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Clear Creek Mutual **Attachment D**	0	• Not applicable.	$835,818	$0	$0	N
Total	**0**		**$835,818**	**$0**	**$0**	

Attachment D

HC2021LR031

Available For Public Use

Clear Creek Mutual
Audit Reference ID: HC2021LR031
(SAC No.: 532363)

Performance audit for the Universal Service High Cost Program - Disbursements made during the twelve-month period ended December 31, 2019

Prepared for: Universal Service Administrative Company

As of Date: 4/18/2022

KPMG LLP
8350 Broad Street Suite 900
McLean, VA 22102

TABLE OF CONTENTS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

EXECUTIVE SUMMARY

April 18, 2022

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to Clear Creek Mutual Study Area Code ("SAC") No. 532363 ("Clear Creek" or "Beneficiary") for disbursements of $835,818 made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2019. Our work was performed during the period from July 28, 2021 to April 18, 2022 and our results are as of April 18, 2022.

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

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

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program (collectively, the "FCC Rules") relative to disbursements, of $835,818, made from the High Cost Program during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our audit objective.

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

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

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated April 18, 2022.

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

Sincerely,

KPMG LLP

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

List of Acronyms

Acronym	Definition
ARC	Access Recovery Charge
BLS	Broadband Loop Support
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF	Connect America Fund
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
COE	Central Office Equipment
CPR	Continuing Property Record
FCC	Federal Communications Commission
Form 509	CAF BLS Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
ICLS	Interstate Common Line Support
ILEC	Incumbent Local Exchange Carrier
MUS	Monetary Unit Sampling
NECA	National Exchange Carrier Association
SAC	Study Area Code
SLC	Subscriber Line Charge
SVS	Safety Valve Support
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

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

1. HCL: HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following sub-component:
    a. SVS: SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. CAF ICC: CAF ICC support is available to ILECs to recover revenue that is not covered by the ARC to the end user.
3. CAF BLS: CAF BLS provides support for voice and broadband service, including stand-alone broadband. CAF BLS provides support for rate-of-return carriers to the extent that SLC caps do not permit them to recover their common line revenue requirements. CAF BLS replaced ICLS effective July 1, 2016.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, of $835,818, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Clear Creek Mutual (SAC No. 532363), the subject of this performance audit, is located in Oregon City, Oregon and serves over 1,900 customers in the state of Oregon. Clear Creek provides broadband and voice services. The Beneficiary is a solely owned entity and it is not affiliated with another company.

In the table below, we show the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2019 by High Cost fund type:

High Cost Support	Disbursement Amount
CAF BLS	$557,970
CAF ICC	$165,144
HCL	$112,704
Total	$835,818

Source: USAC

The Beneficiary received High Cost support during the twelve-month period ended December 31, 2019, based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2018-1 HCL Form, based on the twelve-month periods ended December 31, 2017;
- 2018 FCC Form 509, based on calendar year 2017 data; and
- 2018 CAF ICC Form, based on program year 2017 data.

In the above referenced forms, the High Cost Program beneficiaries provide line count data and the totals of certain pre-designated G/L Accounts including all asset accounts that roll into the TPIS account as well as certain deferred liabilities and operating expenses, subject to the allocation between regulated and non-regulated activities ("Part 64 Cost Allocations"), the separation between interstate and intrastate operations ("Part 36 Separations") and the separation between access and non-access elements ("Part 69 Separations"). In addition, the Beneficiary must submit certain annual investment data, including the categorization of COE and C&WF on the High Cost Program Forms.

OBJECTIVES

The audit objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, of $835,818, made from the High Cost Program during the twelve-month period ended December 31, 2019.

SCOPE

The scope of this performance audit included, but was not limited to, review of High Cost Program Forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the High Cost Program Forms or other correspondence, and evaluation of disbursement amounts made by the Beneficiary or potentially due to the Beneficiary. The scope of our work was focused on the High Cost Program Forms or other correspondence filed by the Beneficiary that relate to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019.

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

1. Materiality Analysis
2. Reconciliation
3. Assets
4. Expenses
5. High Cost Program Eligibility Forms
6. COE Categorization
7. C&WF Categorization
8. Overheads
9. Taxes
10. Part 64 Cost Allocations
11. Affiliate Transactions
12. Revenues, Subscriber Listings and Billing Records
13. Revenue Requirement

PROCEDURES

1. Materiality Analysis

For applicable High Cost Program Forms, we obtained the forms submitted for the period ended December 31, 2017, input the information into KPMG's High Cost Program models, and ran a materiality analysis that increased and decreased the account balances by +/- 50%. If the impact generated a +/- 5% or $100,000 change to overall disbursements, the individual line item/account was considered material for purposes of our performance audit.

2. Reconciliation

KPMG obtained the audited 2017 financial statements and reconciled them to the G/L, which we in turn reconciled to the Part 64 cost allocation inputs and then to the applicable High Cost Program Forms.

3. Assets

KPMG utilized a monetary unit sampling (MUS)[2] methodology to select 22 asset samples from material accounts identified in the relevant High Cost Program Forms. We made asset selections from CPR details, and material accounts included COE and C&WF accounts. We assessed whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

[1] If exceptions (instances of material noncompliance with the FCC Rules) were noted in areas other than the in-scope areas as a result of our testing procedures and the execution of our performance audit, we identified those findings in the 'Results' section of the report.
[2] Monetary unit sampling (MUS) is a random-based sampling approach.

4. Expenses

KPMG utilized a MUS methodology to select 30 expense samples including payroll from material operating expense accounts identified in the relevant High Cost Program Forms. We agreed expense amounts to the supporting documentation such as invoices and reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and the associated accumulated depreciation amounts.

5. High Cost program filings

For the relevant High Cost program filings (HCL, CAF BLS, and CAF ICC), the completeness of reported accounts was assessed via reconciliations to the audited financial statements in accordance with the 'Reconciliation' process described above. Irreconcilable items were discussed with the Beneficiary and support obtained to resolve differences.

6. COE Categorization

KPMG reviewed the methodology established by the Beneficiary for COE categorization, including the process for updating the network map and COE cost studies, as well as performing a virtual physical inspection. We assessed whether COE amounts reconciled to studies including reviewing power and common allocations, Part 36 inputs and whether amounts agreed to the HCL form data.

7. C&WF Categorization

KPMG reviewed the methodology established by the Beneficiary for C&WF categorization including the process for updating the network map and C&WF cost studies. We assessed whether C&WF amounts reconciled to studies and whether amounts agreed to the HCL form data. We also performed a route distance inspection.

8. Overheads

KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2017. Additionally, we reviewed overhead clearing reports for the entire year and reviewed the overhead clearance process for compliance with Part 32 requirements.

9. Taxes

KPMG determined that the Beneficiary is not subject to state or federal income taxes. The Beneficiary is considered a Tax-Exempt Cooperative entity for tax filing purposes, noting that for 2017, the Beneficiary filed a Corporate Tax Return – Form 990, a tax-exempt alternative for the legal entity. KPMG performed additional evaluation of the applicable forms and determined that only property taxes were included in the regulatory forms for High Cost Program support.

10. Part 64 Cost Allocations

KPMG reviewed the Beneficiary's cost apportionment methodology and performed procedures to evaluate the apportionment factors, which included performing a walkthrough with the Beneficiary and evaluating the reasonableness of the cost pool and regulated/non-regulated apportionment factors as compared to regulated and non-regulated activities performed by the Beneficiary; assessing the reasonableness of the allocation methods and corresponding data inputs used to calculate the material factors; and recalculating each of the material factors.

11. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that included Data Transmission that occurred during 2017. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select different types of affiliate transactions for testing. For the 10 samples selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded and priced in accordance with 47 C.F.R. Section 32.27 and 47 C.F.R. Section 36.2 and recorded to the appropriate Part 32 accounts.

12. Revenues, Subscriber Listings and Billing Records

KPMG examined revenue G/L accounts, invoices and other related documentation to verify the accuracy and existence of revenue account balances. KPMG analyzed subscriber listings and billing records to assess that the number and type of lines reported in the High Cost Program filings agreed to underlying support documentation; subscriber listings did not include duplicate lines, invalid data, or non-revenue producing or non-working loops; and lines were properly classified as residential/single-line business or multi-line business.

13. Revenue Requirement

KPMG reviewed the calculation of the Beneficiary's revenue requirement, including assessing the reasonableness and application of Part 64 cost allocation, Part 36 and Part 69 separations and other cost study adjustments utilized in the calculation of the common line revenue requirement.

RESULTS

KPMG's performance audit results noted no findings regarding the Beneficiary's compliance with FCC requirements relative to Parts 32, 36, 51, 54, 64 and 69 of the FCC Rules, applicable to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019. USAC Management is responsible for any decisions and actions resulting from the findings or recommendations noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

KPMG's performance audit procedures identified no findings.

CONCLUSION

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 relevant to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, identified no findings.

** This concludes the audit report.**

Summary of Low Income Support Mechanism Beneficiary Audit Report Released: June 2022

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Tote Holdings, LLC and First American Holdings, Inc. **Attachment A**	2	• No significant findings.	$58,660	$6,517	$5,992	Y
Total	**2**		**$58,660**	**$6,517**	**$5,992**	

Available For Public Use

Attachment A

LI2021LR001

Tote Holdings, LLC and First American Holdings, Inc.

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

USAC Audit No. LI2021LR001

TABLE OF CONTENTS

EXECUTIVE SUMMARY

March 14, 2022

Toney Prather, President
TOTE Holdings, LLC and First American Holdings, Inc.
101 Otis St.
Dustin, OK 74839

Dear Mr. Prather:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of TOTE Holdings, LLC and First American Holdings, Inc.[1] (Beneficiaries), for all study area codes (SACs) where the Beneficiaries claimed subscribers during the calendar year 2019, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

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

USAC may have omitted certain information from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have

[1] Totelcom Communications, LLC is under the TOTE Holdings, LLC umbrella and Oklatel Communications, Inc. (SAC 432013) and North Texas Telephone Company, Inc. (SAC 442043) are under the First American Holdings, Inc. umbrella. Toney Prather is the President of both Tote Holdings, LLC and First American Holdings, Inc.

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
Pamela Hughet, USAC Vice President, Lifeline Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Study Area Code(s)	Monetary Effect (A)	Overlapping Exceptions[2] (B)	Recommended Recovery (A) - (B)
Finding #1: 47 C.F.R. § 54.410(b)(1)(i) - Improper Certification/Recertification Completion The Beneficiary claimed support for 48 subscribers that did not properly complete all fields on the certification/recertification form.	432013	$5,575	$0	$5,575
Finding #2: 47 C.F.R. § 54.417(a) - Lack of Documentation The Beneficiary did not provide the recertification forms and/or eligibility documentation for seven subscribers.	432013	$942	$525	$417
Total Net Monetary Effect		**$ 6,517**	**$525**	**$5,992**

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the calendar year 2019 (the audit period):

[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.

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
432013	OK	Lifeline	1,890	$51,960
432013	OK	Tribal Link Up	10	$350
442043	TX	Lifeline	99	$902
442060	TX	Lifeline	599	$5,448
		Total	**2,598**	**$58,660**

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

BACKGROUND

The Beneficiaries are incumbent eligible telecommunications carriers (ETCs) that operate in the states/territories identified in the Scope table above. SAC 432013 is located within Tribal lands.

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 59 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Lifeline Subscriber Discounts

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

D. Form 555

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

E. Minimum Service Standard

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

DETAILED AUDIT FINDINGS

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

CONDITION

AAD obtained and examined certification/recertification documentation for a non-statistical sample of 59 subscribers to determine whether the subscribers properly completed the relevant form. For 48 of the 59 samples (from SAC 432013), the subscribers failed to complete certain fields on the subscriber certification or recertification documentation as summarized below:

Omitted Fields	**No. of Affected Subscriber Certification Documentation**
Signature and/or initials for required fields	10
Last four digits of the social security number	1
Subscribers did not certify to living on Tribal Lands	31
Errors	
Certification/Recertification form dated subsequent to Lifeline start date/anniversary date	3
Date of Birth and/or SSN not agreed to the subscriber claimed on LCS	3
Total No. of Omissions/Errors[3]	**48**

All eligible telecommunications carriers must implement policies and procedures to ensure that Lifeline subscribers are eligible to receive Lifeline services. This would include ensuring certification/recertification forms are properly completed. Because the subscribers did not properly complete the certification/recertification forms, AAD concludes the 48 subscribers were not eligible to receive the Tribal Lifeline support or basic Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have an adequate system in place for collecting properly completed Lifeline certification/recertification forms from applicants and accurately recording the information into NLAD. The Beneficiary informed AAD that the findings are a result of recipients failing to complete some portion of the form (i.e., initials, signature, did not check Tribal lands).[4]

EFFECT

As noted in the table in the Condition section above, in 31 instances, subscribers failed to check the box to certify they lived on Tribal lands on the subscriber certification or recertification documentation. Because

[3] Documentation for each subscriber certification may omit multiple fields. Therefore, one subscriber may be included in multiple rows in the table above.
[4] Beneficiary responses to the Audit Inquiries Record (AIR), received Sep. 27, 2021.

these subscribers otherwise qualified for Lifeline support, AAD only included the Tribal portion of the total claimed $27.50 support amount in calculating the monetary effect and will not seek recovery of the basic support portion of that total claimed amount. AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Tribal Lifeline support for these 31[5] subscribers subsequent to the subscriber's Lifeline start date or the earlier of the latest recertification form date/anniversary date noted in NLAD, until December 31, 2019. AAD identified a total of 225 such instances. AAD multiplied the 225 instances by the Tribal Lifeline support amount reimbursed to the Beneficiary ($20.25 for January 2020 and $18.25 for all other months[6]), rounded to the nearest whole dollar.

Further, AAD determined the number of instances (months) the Beneficiary claimed Lifeline support for the remaining subscribers in error subsequent to the subscriber's Lifeline start date or the earlier of the latest recertification form date/anniversary date noted in NLAD, until December 31, 2019. AAD identified a total of 109 such instances. AAD multiplied the 109 instances by the total Lifeline support amount reimbursed to the Beneficiary ($27.50),[7] rounded to the nearest whole dollar.

Finally, AAD also identified six instances of subscribers not eligible for Tribal Link-up support. AAD multiplied the six instances by the Tribal Link up support amount reimbursed to the Beneficiary ($35). AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
Lifeline (Tribal)	$ 5,365
Tribal Link-Up Support	$ 210
Total	**$ 5,575**

RECOMMENDATION

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

The Beneficiary must implement policies, procedures and controls to ensure it retains adequate records that demonstrate compliance with the FCC Rules. USAC designed the National Verifier system to ensure that documentation is maintained where necessary for subscribers who enroll/recertify in the Lifeline program after the system has been launched in the state. The Beneficiary may learn more about Lifeline subscriber

[5] Of the 31 subscribers noted here, 13 also committed other violations as set forth in the table located in the Condition section. In instances where one subscriber certification omitted multiple fields, AAD only recommended recovery for one violation per subscriber in order to avoid duplicative recoveries.

[6] *See* 47 C.F.R. § 54.403(a)(2)(2019) - The Lifeline basic support rate for voice-only service was reduced from $9.25 to $7.25 in December 2019, which affects January 2020 disbursements. The affected 31 subscribers were voice-only subscribers. Thus, for January 2020 disbursements, the recovery amount was $20.25 per affected subscriber ($27.50 total claimed support amount minus $7.25). For disbursements associated with the remainder of the audit period, the recovery amount was $18.25 per affected subscriber per month ($27.50 total claimed support amount minus $9.25).

[7] For these 17 subscribers, the issues affecting their certification or recertification documentation were severe enough to warrant recovery of both the claimed basic and Tribal lands Lifeline support amounts.

certification disclosure requirements on USAC's website at https://www.usac.org/lifeline/rules-and-requirements/record-keeping/.

BENEFICIARY'S RESPONSE

The Beneficiary has responsibility to ensure customers are eligible for Lifeline benefits, including Tribal benefits. Because the entirety of SAC 432013's service area is deemed a Tribal land per FCC rules, any customer eligible for Lifeline benefits is also eligible for the additional Tribal benefit. Accordingly, it would be impossible for a lifeline customer in this area to be eligible for one but not both benefits. As beneficiary has explained previously, there is great confusion with customers in what the subscriber checks for "tribal lands." Specifically, in our case customers think the form means actual Tribal Reservation lands, not the expanded FCC definition under 47 C.F.R. 54.400(e). As USAC is aware, no area in SAC 432013 is Tribal Reservation land, but it is federally recognized. Beneficiary receives most of these completed customer forms via mail and does not have an opportunity during the certification process window to return the form to the customer to get that one additional box checked. Because Beneficiary knows that every single Lifeline eligible customer is also Tribal eligible, customers were properly entered into the USAC system as such. In instances where boxes were not initialed properly, all were customers who had been prior Lifeline recipients and were known to Beneficiary staff persons as eligible customers. Finally, as Beneficiary made USAC aware, some customers are of mental deficit and unable to complete the forms properly. Beneficiary does not believe it is USAC's intent to deny the benefit to eligible customers because of unreasonable obstacles. Currently, this process is no longer the responsibility of Beneficiary, but of the National Verifier, so no additional corrections in processes are necessary at this time. Should that change, Beneficiary will work to ensure its policies are consistent with FCC rules and USAC's recommendation.

AAD RESPONSE

The Beneficiary stated in its response that "[b]ecause the entirety of SAC 432013's service area is deemed a Tribal land per FCC rules, any customer eligible for Lifeline benefits is also eligible for the additional Tribal benefit. Accordingly, it would be impossible for a lifeline customer in this area to be eligible for one but not both benefits." The Beneficiary further stated "[b]ecause [the] Beneficiary knows that every single Lifeline eligible customer is also Tribal eligible, customers were properly entered into the USAC system as such." However, Section 54.410(b)(1)(i) of the FCC's Rules states that eligible telecommunication carriers must "not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section…."[8] To be eligible for Tribal support, the FCC requires subscribers to certify to the required disclosures, including the required certification of residing on Tribal lands. As noted in the Condition section above, the recertification and certification forms provided by the Beneficiary did not contain the required certification necessary for Tribal support. Therefore, our position on this finding remains unchanged.

[8] *See* 47 C.F.R. § 54.410(b)(1)(i).

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

CONDITION

AAD obtained and examined certification forms and related documentation for a sample of 59 subscribers to determine whether the documentation was properly completed. The Beneficiary did not provide the requested documentation for 7 of 59 subscribers from SAC 432013, as summarized below:

Documentation	Count of Affected Subscriber Documentation
Recertification forms not provided	4
Documentation to confirm Third Party Identity Verification(TPIV)[9] flag not provided	2
Copy of subscriber's proof of eligibility not provided	1
Total No. of Affected Subscribers	**7**

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

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of certification forms and proof of eligibility to demonstrate that subscribers completed the required certifications and presented the required eligibility documentation at the time of application.

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the seven subscribers subsequent to the subscriber's Lifeline start date or the service anniversary date noted in NLAD, until December 31, 2019. AAD identified a total of 33 instances. AAD multiplied the 33 instances by the total Lifeline support amount reimbursed to the Beneficiary ($27.50), rounded to the nearest whole dollar. AAD also identified one instance where the Beneficiary claimed and was reimbursed for Tribal Link-Up support ($35). AAD summarized the results below:

---

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

[10] 47 C.F.R. §§ 54.404(b)(11), 54.410(b), 54.410(c), 54.410(d), and 54.410(f).

Support Type	Monetary Effect (A)	Overlapping Exceptions (B)	Recommended Recovery[11] (A) – (B)
Lifeline	$ 907	$490	$ 417
Tribal Link-up support	$ 35	$ 35	$ -
Total	**$ 942**	**$ 525**	**$ 417**

RECOMMENDATION

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

The Beneficiary must implement policies, procedures and controls to ensure it retains adequate records to demonstrate compliance with the FCC Rules. USAC designed the National Verifier system to ensure that documentation is maintained where necessary for subscribers who enroll/recertify in the Lifeline program after the system has been launched in the state. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/lifeline/rules-and-requirements/record-keeping/.

BENEFICIARY RESPONSE

> Beneficiary, a small rural telecommunications provider, has a small staff including only one Customer Service Representative responsible for the recertification process. Since this audit period, that staff person has retired from Beneficiary, and the records were moved to the corporate office location. It is possible that recertification documents were misfiled during this transition period. These customers have not been deemed ineligible since this period, and Beneficiary does not believe it is USAC's intent to deny benefits to eligible customers.
>
> This process is no longer the responsibility of Beneficiary, but instead of the National Verifier, so no further corrections are necessary. Should that change, Beneficiary will work to ensure its policies are consistent with FCC rules and USAC's recommendation.

AAD RESPONSE

The Beneficiary states in its response that "[t]hese customers have not been deemed ineligible since this period, and [the] Beneficiary does not believe it is USAC's intent to deny benefits to eligible customers." While the National Verifier will relieve the Beneficiary of the responsibility of ensuring that future subscribers are eligible for support, the FCC Rules require beneficiaries to maintain records to document compliance with the Lifeline and Tribal Link Up programs for the three full preceding calendar years and provide that documentation to USAC upon request. As noted in the condition section above, the Beneficiary did not provide the requested documentation for 7 of 59 subscribers. Thus, our position on this finding remains unchanged.

[11] To prevent double-recovery, the recommended recovery amount is less than the monetary effect given that $525 overlaps with the recommended recovery in Finding #1.

CRITERIA

Finding	Criteria	Description
#1, 2	47 C.F.R. § 54.410(b)(1)(i) (2019)	***Initial income-based eligibility determination.*** Except where the National Verifier, state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline using the income-based eligibility criteria provided for in § 54.409(a)(1) an eligible telecommunications carrier: **(i)** Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's income-based eligibility using the following procedures: **(A)** If an eligible telecommunications carrier can determine a prospective subscriber's income-based eligibility by accessing one or more databases containing information regarding the subscriber's income ("income databases"), the eligible telecommunications carrier must access such income databases and determine whether the prospective subscriber qualifies for Lifeline. **(B)** If an eligible telecommunications carrier cannot determine a prospective subscriber's income-based eligibility by accessing income databases, the eligible telecommunications carrier must review documentation that establishes that the prospective subscriber meets the income-eligibility criteria set forth in § 54.409(a)(1). Acceptable documentation of income eligibility includes the prior year's state, federal, or Tribal tax return; current income statement from an employer or paycheck stub; a Social Security statement of benefits; a Veterans Administration statement of benefits; a retirement/pension statement of benefits; an Unemployment/Workers' Compensation statement of benefit; federal or Tribal notice letter of participation in General Assistance; or a divorce decree, child support award, or other official document containing income information. If the prospective subscriber presents documentation of income that does not cover a full year, such as current pay stubs, the prospective subscriber must present the same type of documentation covering three consecutive months within the previous twelve months.
#1	47 C.F.R. § 54.410(d) (2019)	***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. **(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).
#2	47 C.F.R. § 54.410(f) (2019)	***Annual eligibility re-certification process.*** **(1)** All eligible telecommunications carriers must re-certify all subscribers 12 months after the subscriber's service initiation date and every 12 months thereafter, except for subscribers in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the annual re-certification of subscribers' Lifeline eligibility. **(2)** In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by: **(i)** Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or **(ii)** Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review. **(iii)** If the subscriber's program-based or income-based eligibility for Lifeline cannot be determined by accessing one or more state databases containing information regarding enrollment in qualifying assistance programs, then the eligible telecommunications carrier may obtain a signed certification from the subscriber on a form that meets the certification requirements in paragraph (d) of this section. If a Federal eligibility recertification form is available, entities enrolling subscribers must use such form to recertify a qualifying low-income consumer. **(iv)** In states in which the National Verifier has been implemented, the eligible telecommunications carrier cannot re-certify subscribers not found in the National Verifier by obtaining a certification form from the subscriber.

		(3) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of a subscriber's Lifeline eligibility, the National Verifier, state Lifeline administrator, or state agency must confirm a subscriber's current eligibility to receive a Lifeline service by: **(i)** Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or **(ii)** Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review. **(iii)** If the subscriber's eligibility for Lifeline cannot be determined by accessing one or more databases containing information regarding enrollment in qualifying assistance programs, then the National Verifier, state Lifeline administrator, or state agency may obtain a signed certification from the subscriber on a form that meets the certification requirements in paragraph (d) of this section. If a Federal eligibility recertification form is available, entities enrolling subscribers must use such form to recertify a qualifying low-income consumer. **(4)** Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of subscribers' Lifeline eligibility, the National Verifier, state Lifeline administrator, or other state agency must provide to each eligible telecommunications carrier the results of its annual re-certification efforts with respect to that eligible telecommunications carrier's subscribers. **(5)** If an eligible telecommunications carrier is unable to re-certify a subscriber or has been notified by the National Verifier, a state Lifeline administrator, or other state agency that it is unable to re-certify a subscriber, the eligible telecommunications carrier must comply with the de-enrollment requirements provided for in § 54.405(e)(4).
#2	47 C.F.R. § 54.404(b)(11) (2019)	***The National Lifeline Accountability Database.*** In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: […] **(11)** All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or

		investigations or to the extent required by NLAD processes, which require, inter alia, verification of eligibility, identity, address, and age.
#2	47 C.F.R. § 54.410(c) (2019)	***Initial program-based eligibility determination***. **(1)** Except in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in § 54.409(a)(2) or (b)," an eligible telecommunications carrier: **(i)** Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility using the following procedures: **(A)** If the eligible telecommunications carrier can determine a prospective subscriber's program-based eligibility for Lifeline by accessing one or more databases containing information regarding enrollment in qualifying assistance programs ("eligibility databases"), the eligible telecommunications carrier must access such eligibility databases to determine whether the prospective subscriber qualifies for Lifeline based on participation in a qualifying assistance program; or **(B)** If an eligible telecommunications carrier cannot determine a prospective subscriber's program-based eligibility for Lifeline by accessing eligibility databases, the eligible telecommunications carrier must review documentation demonstrating that a prospective subscriber qualifies for Lifeline under the program-based eligibility requirements. Acceptable documentation of program eligibility includes the current or prior year's statement of benefits from a qualifying assistance program, a notice or letter of participation in a qualifying assistance program, program participation documents, or another official document demonstrating that the prospective subscriber, one or more of the prospective subscriber's dependents or the prospective subscriber's household receives benefits from a qualifying assistance program. **(ii)** Must securely retain copies of the documentation demonstrating a subscriber's program-based eligibility for Lifeline, consistent with § 54.417, except to the extent such documentation is retained by the National Verifier. **(2)** Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based eligibility criteria

		provided in § 54.409(a)(2) or (b), an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received from the National Verifier, state Lifeline administrator or other state agency: **(i)** Notice that the subscriber meets the program-based eligibility criteria set forth in § 54.409(a)(2) or (b); and **(ii)** If a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, a copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section. **(iii)** An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.
#2	47 C.F.R. § 54.417(a) (2019)	***Recordkeeping requirements.*** Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years.

This concludes the report.