High Cost and Low Income Committee Meeting

Audit Reports Briefing Book

Monday, October 24, 2022

Available For Public Use

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Toledo Telephone Co. **Attachment A**	0	• Not applicable.	$4,977,618	$0	$0	N
Mollala Telephone Co. **Attachment B**	0	• Not applicable	$6,121,627	$0	$0	N
Total	**0**		**$11,099,245**	**$0**	**$0**	

Attachment A

HC2021LR024

Toledo Telephone Company
Audit Reference ID: HC2021LR024
(SAC No.: 522447)

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: 6/24/2022

KPMG LLP
8350 Broad Street #900
McLean, VA 22102

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

June 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 Toledo Telephone Company Study Area Code ("SAC") No. 522447 ("Toledo" or "Beneficiary") for disbursements, of $4,977,618 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 29, 2021 to June 24, 2022, and our results are as of June 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 objectives. 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 $4,977,618, 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 findings that are not significant within the context of the audit objective but warrant the attention of those charged with governance. We have reported these findings to the Beneficiary's management in a separate letter dated June 24, 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
TTC	Toledo Telephone Company
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's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, of $4,977,618, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Toledo Telephone Company (SAC No. 522447), the subject of this performance audit, is a family owned ILEC headquartered in Toledo, Washington, USA that serves approximately 1,600 customers in Toledo and other communities in Washington state. Toledo provides facilities-based telecommunications and broadband services.

In 2017, the Beneficiary had two wholly-owned subsidiaries Toledo Cellular and Toledo Telenet Long Distance, which offer cellular and long distance services, respectively.

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	$3,799,079
CAF ICC	$528,054
HCL	$650,485
Total	$4,977,618

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 $4,977,618, 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.[1]

[1] Although the Beneficiary received CAF BLS funds, the deployment obligation due date for carriers receiving CAF BLS is 2024. Therefore, the audit scope does not include any procedures related to modernized funds.

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, 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 29 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, C&WF and certain general support 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; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

4. Expenses

[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.

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 accumulated depreciation.

5. **High Cost Program Filings**

   For the relevant High Cost program forms (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 the tax filing status for the Beneficiary as a taxable corporation and obtained and reviewed the federal and state tax filings for 2017. KPMG reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness and developed an expectation of the effective tax rate. Additionally, we reviewed the Part 64 apportionment of operating tax account balances and evaluated the reasonableness of cost allocation methods.

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 including employee billing hours across companies and toll services paid to Toledo Telenet Long Distance 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 every sample 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 noted no findings regarding the Beneficiary's compliance with FCC requirements 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

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.**

Attachment B

HC2021LR028

Available For Public Use

Molalla Telephone Company Audit Reference ID: HC2021LR028 (SAC No.: 532383)

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: 05/24/2022

KPMG LLP
8350 Broad Street Suite 900
McLean, VA 22102

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

EXECUTIVE SUMMARY

May 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 Molalla Telephone Company Study Area Code ("SAC") No. 532383 ("Molalla" or "Beneficiary") for disbursements, of $6,121,627 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 August 17, 2021 to May 24, 2022, and our results are as of May 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 objectives. 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 $6,121,627, 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 as outlined in the Scope and Procedures sections of this report.

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.

KPMG

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
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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
MCSI	Molalla Communication Systems Incorporated
Molalla	Molalla Telephone Company
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's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, of $6,121,627, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Molalla Telephone Company (SAC No. 532383), the subject of this performance audit, is an ILEC located in Molalla, Oregon and serves over 3,100 customers in the state of Oregon, providing broadband and voice services. The Beneficiary also wholly owns Molalla Communications Systems, Inc.

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	$4,335,210
CAF ICC	$289,332
HCL	$1,497,085
Total	**$6,121,627**

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 Access Charges). 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 $6,121,627, 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.[1]

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, 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 29 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, C&WF and certain general support asset accounts. We assessed whether asset balances were properly supported by underlying

[1] Although the Beneficiary received CAF BLS funds, the deployment obligation due date for carriers receiving CAF BLS is 2024. Therefore, the audit scope does not include any procedures related to modernized funds.

[2] If exceptions (instances of material non compliance 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.

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.

4. **Expenses**

   KPMG utilized a monetary unit sampling 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 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 accumulated depreciation.

5. **High Cost Program Filings**

   For the relevant High Cost program forms (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 the Beneficiary is generally not subject to state or federal income taxes. The Beneficiary is considered a Tax-Exempt Cooperative entity for tax filing purposes. However, the Beneficiary filed a consolidated Corporate Tax Return – Form 8879-C in 2017 as it did not meet the requirements established for tax exempt entities. 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 labor cost allocations for management that occurred during 2017. We selected three affiliate transactions with the highest dollar value in aggregate for testing. Each of the selected transactions included labor and overhead costs that was utilized by the Beneficiary's management to perform managerial tasks for the Beneficiary's subsidiary, MCSI. 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 samples selected, we reviewed the business purpose of each transaction, evaluated the amount of each transaction for reasonableness and pricing, 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 apportionments 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'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

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 High Cost Support Mechanism Beneficiary Audit Reports Released: August 2022

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Triangle Telephone Cooperative **Attachment C**	2	• No significant findings.	$19,422,561	($16,363)	$0	N
Total	**2**		**$19,422,561**	**($16,363)**	**$0**	

Attachment C

HC2021LR010

Available For Public Use

Triangle Telephone Cooperative Audit Reference ID: HC2021LR010 (SAC No.: 482257)

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: 6/30/2022

KPMG LLP
8350 Broad Street
Suite #900
McLean, VA 22102

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

June 30, 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 Triangle Telephone Cooperative Study Area Code ("SAC") No. 482257 ("Triangle" or "Beneficiary") for disbursements of $19,422,561 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 23, 2021 to June 30, 2022, and our results are as of June 30, 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 objective.

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 $19,422,561 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 $16,363 lower 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.

In addition, we also noted findings that are not significant within the context of the audit objective but warrant the attention of those charged with governance. We reported these findings to the Beneficiary's management in a separate letter dated June 30, 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
CMC	Central Montana Communications
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
TTC	Triangle Telephone Cooperative
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Impact Overpayment (Underpayment)[1]			
	HCL	CAF BLS	CAF ICC	Total
<u>HC2021LR010-F01</u>: 47 C.F.R. § 32.2000(g)(2)(iii) - Inaccurate Depreciation Calculation – The Beneficiary used month end balances instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules.	($10,237)	($4,108)	$0	($14,345)
<u>HC2021LR010-F02</u>: 47 C.F.R. § 54.1305(i) - Inaccurate Loop Counts – The Beneficiary overstated Total Loops and Category 1.3 Loops by 4 loops/access lines on the Form 507 and 2018-1 HCL form and by 3 loops/access lines for 2018-2 HCL form compared to the source documentation.	($ 2,018)	$0	$0	($2,018)
Total Net Monetary Effect	($12,255)	($4,108)	$0	($16,363)

[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 for SAC 482257 for the High Cost Program 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)**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	($10,237)	($4,108)	N/A	($14,345)	N/A
Finding #2	($2,018)	N/A	N/A	($ 2,018)	N/A
Mechanism Total	($12,255)	($4,108)	N/A	($16,363)	

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

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 $19,422,561, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Triangle Telephone Cooperative (SAC No. 482257), the subject of this performance audit, is a rural ILEC located in Havre, Montana that serves over 17,000 customers in Central Montana. Triangle Telephone Cooperative also has another study area code, Central Montana Communications ("CMC") (SAC No. 483310), which is not the subject of this audit, that is a division of Triangle Telephone Cooperative which serves over 6,500 customers in Central Montana. Both Triangle Telephone Cooperative and CMC provide broadband internet, local, long distance, and mobile telephone services.

Additionally, Triangle has one non-regulated subsidiary, Triangle Communication, System Inc., that provides long distance service, cellular telephone service and wireless internet.

Triangle Telephone Cooperative, including CMC, and its subsidiary, Triangle Communication, System Inc. have a joint operation and maintenance agreement with Hill County Electric Cooperative, Inc. Costs incurred in the performance of regulated services under the agreement that relate to joint operations are apportioned between the telecommunications companies and the electric cooperative. Triangle Telephone Cooperative and Hill County Electric Cooperative each have their own Board of Directors.

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	$8,071,770
CAF ICC	$1,274,484
HCL	$10,076,307
Total	$19,422,561

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 and 2018-2 HCL Forms, based on the twelve-month periods ended December 31, 2017, and March 31, 2018, respectively,
- 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 Access Charges"). 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 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 $19,422,561, 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.[2]

KPMG identified the following areas of focus for this performance audit:[3]

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 periods ended December 31, 2017, and March 31, 2018, 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 and 2018 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)[4] methodology to select 29 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, C&WF, and certain general support 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; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validation of the physical existence of selected assets.

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[2] Although the Beneficiary received CAF BLS funds, the deployment obligation due date for carriers receiving CAF BLS is 2024. Therefore, the audit scope does not include any procedures related to modernized funds.

[3] If exceptions (instances of material non compliance 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.

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

4. **Expenses**

   KPMG utilized a MUS methodology to select 33 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 accumulated depreciation.

5. **High Cost Program Filings**

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

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 and 2018. 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 noted that the Beneficiary is one of two SACs in a tax-exempt cooperative, Triangle Telephone Cooperative. Triangle Telephone Cooperative files a consolidated Federal Income Tax Form 1120, U.S. Corporation Income Tax Return, with its subsidiary, Triangle Communications Systems, Inc. We obtained and reviewed the form, and noted the Beneficiary is not required to pay federal or state income taxes on patronage activities and that only property taxes were included on the High Cost 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 via a joint management and operation agreement, spectrum lease agreements, and tower site lease agreements that occurred during January 1, 2017 to March 31, 2018. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, gaining further understanding of the transactions via inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the eight 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 apportionments 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 its audit, KPMG identified two findings and discusses the findings, including the condition, cause, effect, recommendation and Beneficiary Response are below:

HC2021LR010-F01: 47 C.F.R. § 32. 2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG obtained and examined the Beneficiary's G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. The Beneficiary used prior month-end balances instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules for the period of January 1, 2017 through March 31, 2018.

The differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month period ended December 31, 2017, impacting the 2018-1 HCL Form and the Form 509 along with the twelve-month period ended March 31, 2018, impacting the 2018-2 HCL Form, are as follows:

Account Description[5]	**For the 12 months ended December 31, 2017 $ Variance**	**For the 12 months ended March 31, 2018 $ Variance**
Account 3100 (2100): Accumulated Depreciation - Land and General Support Assets	($ 1,695)	($ 396)
Account 3100 (2210): Accumulated Depreciation - Central Office Switching Equipment	$ 824	$ 819
Account 3100 (2230): Accumulated Depreciation - Central Office Transmission Equipment	$ 5,414	$ 4,621
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$19,767	$14,163
Account 6560: Depreciation and Amortization Expense	$24,310	$19,207

Note: Negative amounts noted above represent an overstatement of the account balance.

CAUSE

The calculation of accumulated depreciation and depreciation expense did not detect the Beneficiary's depreciation method was not in accordance with FCC Rules due to accounting system limitations.

[5] *See* 47 C.F.R. §§ 32.3100 and 32.6560 (2017).

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 High Cost forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an under-payment of $14,345, as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	($10,237)
CAF BLS	($4,108)
CAF ICC	N/A
Total	($14,345)

RECOMMENDATION

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

Triangle Telephone Cooperative Association agrees with the listed condition. We will work with our accounting software vendor to see if it is possible to calculate depreciation expense using average monthly balances in future USF filings. While we are aware that the NISC software is now capable of calculating depreciation expense based on monthly average investment, the issue becomes that Triangle has multiple entities that are all intertwined, with each using different CPR and plant databases. These multiple databases may not be capable of efficiently being able to perform this monthly calculation without causing more issues between all companies. Triangle Telephone Cooperative Association is aware that if depreciation expense continues to be calculated based on prior month, we are under-calculating depreciation and therefore settlements will be understated.

HC2021LR010-F02: 47 C.F.R. § 54.1305(i)– Inaccurate Loop Counts

CONDITION

The Total Loops submitted on 2018-1 HCL Form for December 31, 2017[6] and on 2018-2 HCL Form for March 31, 2018[7] did not reconcile to the source documentation and, as such, were over-reported by four loops/access lines and three loops/access lines, respectively, as noted below:

	Total Loops	Total Category 1.3 Loops
Source Documentation	9,046	9,014
2018-1 HCL Form/Form 507	9,050	9,018
Difference	4	4

[6] See 47 C. F. R. § 54.903(a)(4)(2017).
[7] See 47 C. F. R. § 54.1306(a)(2017).

	Total Loops	Total Category 1.3 Loops
Source Documentation	9,030	8,998
2018-2 HCL Form	9,033	9,001
Difference	3	3

CAUSE

The Beneficiary's preparation, review and approval processes governing the calculation and reconciliation of line count data did not detect the over-reported lines and the submission of erroneous data.

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 under-payment of $2,018 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	($2,018)
CAF BLS	N/A
CAF ICC	N/A
Total	($2,018)

RECOMMENDATION

KPMG recommends that the Beneficiary implement processes to review and report the appropriate line/loop counts, including the performance of a reconciliation of all line/loop count data to underlying support documentation. Moreover, the Beneficiary should enhance its preparation, review and approval processes over High Cost program filing 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

Triangle Telephone Cooperative agrees with the listed condition. We have updated our procedures to review loop counts on future filings.

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 (2017)	Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses.
#1	47 C.F.R. § 32.6560 (2017)	Depreciation and amortization expenses. Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565.
#2	47 C.F.R. § 54.903(a)(4) (2017)	"Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the carrier is ultimately eligible based on its actual common line and consumer broadband-only loop cost and revenue data during the relevant period. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories."
#2	47 C.F.R. § 54.1305(i) (2017)	"The number of working loops for each study area. For universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing."

Finding	Criteria	Description
#2	47 C.F.R. § 54.1306(a) (2017)	"Any incumbent local exchange carrier subject to § 54.1301(a) may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to § 54.1305 one or more times annually on a rolling year basis according to the schedule."

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: inaccurate depreciation calculation and inaccurate loop counts findings.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	($12,255)
CAF BLS	($ 4,108)
CAF ICC	$0
Total Impact	($16,363)

KPMG recommends that the Beneficiary enhance the preparation, review, and approval processes governing the calculation of depreciation and loop counts to ensure the appropriate method and amounts are utilized on the USF Forms to be in compliance with FCC Rules.

** This concludes the audit report.**

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Reservation Telephone Cooperative **Attachment D**	8	<u>Inaccurate Depreciation Expense and Accumulated Depreciation Calculation:</u> The Beneficiary did not calculate its depreciation in accordance with FCC rules.	$11,936,521	($585,617)	$0	Y
Eastex Telephone Coop, Inc. **Attachment E**	2	• No significant findings.	$15,709,040	$2,535	$2,535	N
Ballard Rural Coop **Attachment F**	4	• No significant findings.	$5,519,274	($9,658)	$0	N
Total	**14**		**$33,164,835**	**($592,740)**	**$2,535**	

Attachment D

HC2017LR003

Universal Service
Administrative Co.

Reservation Telephone Cooperative

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

USAC Audit No. HC2017LR003

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Universal Service
Administrative Co.

EXECUTIVE SUMMARY

June 2, 2022

Shane D. Hart, CEO
Reservation Telephone Cooperative
24 Main St., N
P.O. Box 68
Parshall, ND 58770

Dear Shane D. Hart:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Reservation Telephone Cooperative (Beneficiary), study area code 381632 disbursements for the year ending December 31, 2016, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, 65, and 69, as well as other program requirements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

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

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

Sincerely,

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

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Impact Overpayment (Underpayment) [1]				
	HCL	CAF BLS	CAF ICC	SVS	Total
Finding #1: 47 C.F.R. § 54.1305(f) and 54.1306(a)(3) – Inaccurate Benefits Expense Amount. The Beneficiary did not report all of its benefits expense on the HCL Form.	$90,416	$0	$0	$0	$90,416
Finding #2: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 - Support Not Used for Intended Purpose of Federal Universal Service Support. The Beneficiary included transactions that were not used for the provision, maintenance, and upgrading of facilities and services for which the support was intended for High Cost Program purposes.	$55,088	($2,280)	$0	($1,279)	$51,529
Finding #3: 47 C.F.R. § 64.901(a) - Inaccurate Cost Study Adjustments – Assets and Expenses. The Beneficiary did not correctly calculate some of its cost study adjustments.	$23,583	$23,314	$0	($23,286)	$23,611
Finding #4: 47 C.F.R. § 32.2(a)(b) - Misclassified Expense. The Beneficiary incorrectly classified and recorded an expense.	$7,962	$0	$0	$0	$7,962
Finding #5: 47 C.F.R. § 51.917(d)(1)(iv) - Inaccurate Revenues: Intrastate Terminating Switched Access Service. The Beneficiary incorrectly reported its intrastate access revenue.	$0	$0	$3,900	$0	$3,900
Finding #6: 47 C.F.R. § 65.820(e)(5) - Inaccurate Reporting: Cash Working Capital. The Beneficiary inaccurately calculated and reported its CWC.	$0	$1,266	$0	$0	$1,266
Finding #7: 47 C.F.R. § 36.151 - Inaccurate Cable and Wire Categorization Allocation. The Beneficiary incorrectly allocated and reported its C&WF investment in incorrect categories.	($3,961)	$983	$0	$1,681	($1,297)
Finding #8: 47 C.F.R. § 32.2000 - Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary did not calculate its depreciation as prescribed by the FCC rules.	($238,921)	($417,283)	$0	($106,800)	($763,004)
Total	**($65,833)**	**($394,000)**	**$3,900**	**($129,684)**	**($585,617)**

[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.

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for SAC 381632 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 and compliance with FCC Rules and Orders.

	HCLS (A)	ICLS (B)	CAF-ICC (C)	SVS (D)	USAC Recovery Action (A) + (B) + (C)+(D)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$90,416	$0	$0	$0	$90,416	
Finding #2	$55,088	($2,280)	$0	($1,279)	$51,529	
Finding #3	$23,583	$23,314	$0	($23,286)	$23,611	
Finding #4	$7,962	$0	$0	$0	$7,962	
Finding #5	$0	$0	$3,900	$0	$3,900	
Finding #6	$0	$1,266	$0	$0	$1,266	
Finding #7	($3,961)	$983	$0	$1,681	($1,297)	
Finding #8	($238,921)	($417,283)	$0	($106,800)	($763,004)	
Mechanism Total	**($65,833)**	**($394,000)**	**$3,900**	**($129,684)**	**($588,617)**	

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

[2] *Id.*

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Interstate Common Line Support (ICLS)[3]	2014	2016	$6,280,803
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2014-2015	2016	$693,684
High Cost Loop (HCL)	2014-2015	2016	$4,556,869
Safety Value Support (SVS)	2014	2016	$405,165
Total			**$11,936,521**

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

AAD recalculated the support that the Beneficiary received for each High Cost component and determined that there were no more than nominal differences between the amounts received and those recorded in 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 based on the dates established by FCC Rules (*i.e.,* month or year-end, as appropriate).

C. Subscriber Listing and Billing Records

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

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

D. Fixed Assets

AAD obtained and examined the Beneficiary's continuing property records (CPRs) and related documentation to determine whether the Beneficiary reported accurate central office switching

[3] ICLS was superseded by the Connect America Fund (CAF) Broadband Loop Support (BLS) in 2017.

equipment balances as well as cable and wire facility equipment balances. AAD also examined documentation and conducted a physical inventory to determine whether the Beneficiary categorized fixed assets to the proper accounts.

E. Operating Expenses

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

F. Revenues

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

G. Form 481

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.1305(f) and 54.1306(a)(3) – Inaccurate Benefits Expense Amount

CONDITION

AAD obtained and examined the Beneficiary's general ledgers to determine whether the Beneficiary reported the correct benefit amounts for High Cost Loop program purposes.[4] The Beneficiary reported incorrect benefit totals for central office equipment (COE)-Transmission expense (Account 6232)[5] in its March 31, 2015 (Dash-2),[6] June 30, 2015 (Dash-3), and September 30, 2015 (Dash-4) High Cost filings that did not agree to the amount recorded in its general ledger. AAD summarized the variances between the reported amounts and amounts record it its general ledger below:

Account Description	Amount
COE Transmission Expense (Acct. 6232) – Benefits 2015-2 (as reported)	$371,444
COE Transmission Expense (Acct. 6232) – General Ledger 3/31/2015	$683,101
Variance – (Understatement)	**($311,661)**
COE Transmission Expense (Acct. 6232) – Benefits 2015-3 (as reported)	$381,185
COE Transmission Expense (Acct. 6232) – General Ledger 6/30/2015	$747,782
Variance – (Understatement)	**($366,597)**
COE Transmission Expense (Acct. 6232) – Benefits 2015-4 (as reported)	$387,544
COE Transmission Expense (Acct. 6232) – General Ledger 9/30/2015	$615,207
Variance – (Understatement)	**($227,663)**

[4] *See* 47 C.F.R. §§ 54.1305(f) and 54.1306(a) (3) (2014).
[5] *See* 47 C.F.R. § 32.6232 (2014).
[6] The Beneficiary's March 2015 HCL Dash-2 filing superseded its December 2014 HCL Dash-1 filing, therefore there are no Dash-1 exceptions noted in this finding.

Because the Beneficiary's reported amounts did not agree to its supporting documentation, AAD concludes that the benefits expense amounts reported for High Cost program purposes was inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary indicated to AAD that the understated amount resulted from an error in the report that generates benefits information for the Company.[7]

EFFECT

AAD calculated the monetary effect for this finding by adding the understated amount to the total benefits portion of Account 6232 amount reported by the Beneficiary on the HCL filing and summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$90,416

RECOMMENDATION

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

The Beneficiary must implement an adequate system to collect, monitor, and report accurate benefit amounts for High Cost Program purposes. The Beneficiary must establish a review process to validate the accuracy and completeness of underlying reports used for the cost study and HCP Forms filings. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> The Beneficiary has already made changes within the system to ensure that all benefits are accounted for and how the reports are run. In addition, we believe the calculation of the unaccounted for benefits would be getting a higher allocation using the combination of "B" and "C" factors in the algorithm rather than just the lower "B" factor. This would cause an increase in funding not a decrease.

[7] Beneficiary response to Exception Summary, received April 25, 2022.

AAD RESPONSE

The Beneficiary stated in its response that, "we believe the calculation of the unaccounted for benefits would be getting a higher allocation using the combination of "B" and "C" factors in the algorithm rather than just the lower "B" factor." The High Cost Loop Algorithm is a series of 26 formulas that are used to determine the beneficiary's study area cost per loop, which determines the amount of support the beneficiary receives. In the HCL algorithm, the "B" factor is calculated as a ratio of COE Cat. 4.13, related to central office transmission (circuit equipment), divided by the total COE. The "C" factor is calculated as a ratio of Cable and Wire Facilities (C&WF) Category 1 (cable and wire dedicated to exchange line excluding wideband) divided by total C&WF. Because the understatement of benefits was exclusively associated with Account 6232 (Central Office Transmission Equipment), AAD determined that solely using the "B" factor when calculating the monetary effect of this finding is appropriate. Therefore, our position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 - Support Not Used for Intended Purpose of Federal Universal Service Support

CONDITION

AAD obtained and examined the Beneficiary's general ledger, continuing property records (CPR) and cost study adjustments documentation for the twelve months ended December 31, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, to determine whether the High Cost Program support received was only used for the provision, maintenance, and upgrading of facilities and services for which the support is intended. AAD determined the Beneficiary did not exclude disallowed transactions from its High Cost fillings, but had included cost unrelated to the intended use of High Cost program support.

AAD used computer-assisted auditing techniques and identified 754 disallowed transactions totaling $528,034 and 721 disallowed transactions totaling $437,184[8] for the twelve months ended December 31, 2014 and September 30, 2015, respectively. The Beneficiary did not exclude these transactions from an asset and various expense accounts that were related to meals, travel, membership dues in clubs, sponsorship of community events, conference attendance and gifts to employees that were not necessary for the provision, maintenance, and upgrading of facilities for which the support is intended, as summarized in the table below:

Account Description[9]	2014 Amount[10]	2015 Amount[11]
Telephone Plant Under Construction (Acct. 2003)	$1,708	$0
Network Support Expense (Acct. 6110)	$149	$0
General Support Expense (Acct. 6120)	$575	$87
COE Transmission Expense (Acct. 6232)	$1,649	$1,542

[8] The 12-month total ending on September 30, 2015 contains 176 transactions totaling $136,963 that are included in the 2014 calendar year. AAD does not double-count these transactions when determining the monetary effect of the exception.

[9] See 47 C.F.R. §§ 32.2003, 32.6110, 32.6120, 32.6232, 32.6423, 32.6510, 32.6530, 32.6610, 32.6620, 32.6720 and 32.7300(h)(1)–(3) (2014).

[10] Includes transactions for the period ending Dec. 31, 2014 filed on the Beneficiary's HCL Dash 1 filing.

[11] Includes transactions for the periods from Jan. 1, 2015 to Sept. 30, 2015 filed on the Beneficiary's HCL Dash 2- 4 filings.

Buried Cable Expense (Acct. 6423)	$5,910	$950
Other Operating Expense (Acct 6510)	$423	$0
Network Operating Expense (Acct 6530)	$4,869	$3,427
Marketing Expense (Acct. 6610)	$2,494	$6,364
Customer Operations Services Expense (Acct 6620)	$2,293	$9,092
General and Administrative Expense (Acct 6720)	$496,997	$275,773
Nonoperating Income and Expense (Acct 7300)	$10,967	$2,986
Total	**$528,034**	**$300,221**

While FCC 15-133 and FCC 18-29 were released after the audit period, the effective FCC rule indicates, 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."[12] The Beneficiary should have removed these unallowable transactions during its cost study process.

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

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary indicated to AAD that it believes some of the expenses were allowable during the audit periods and therefore should be included in the rate base.[13]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the value of the unallowable transactions totaling $528,034 and $300,221, for the twelve months ended December 31, 2014, and September 30, 2015, respectively, from the balances reported by the Beneficiary in the respective accounts in its High Cost filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$55,088
ICLS	($2,280)
SVS	($1,279)
Total	**$51,529**

RECOMMENDATION

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

[12] *See also* 47 U.S.C. § 254(e) (2014).

[13] Beneficiary response to the Exception Summary, received April 25, 2022.

The Beneficiary must ensure it has an adequate system to collect, report and monitoring accurate data for High Cost program purposes. The Beneficiary must develop and implement policies, procedures, and processes describing how the Beneficiary removes costs that are not for the provision, maintenance, and upgrading of facilities and services for which the support is intended. The policies will support reporting accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at:https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary has reviewed the expenses and as noted in the original responses does not agree with some of the expenses listed. An example of the expenses we disagree with are exepnses [sic] associated with staff attending conferences and trainings. These expenses are includable in the cost study. IN [sic] addition, many of the expenses listed were had not ben[sic] clarified prior to the 2018 FCC order, and were not deemed excludable at that time. Due to the 2018 FCC order, some of the expenses listed in the findings are excludable from the study and the HCL filing. These expenses are removed each year after reviewing the General Ledger.

AAD RESPONSE

The Beneficiary stated in its response that, "[a]n example of the expenses we disagree with are exepnses[sic] associated with staff attending conferences and trainings. These expenses are includable in the cost study. IN[sic] addition, many of the expenses listed were had not ben[sic] clarified prior to the 2018 FCC order, and were not deemed excludable at that time." AAD afforded the beneficiary an opportunity to provide additional documentation for the expenses the Beneficiary believed allowable. The Beneficiary declined, citing the additional costs retrieving the documentation would incur.[14] In addition, the 2018 Order[15] was a clarification of the existing FCC Rules and not new guidance. Therefore, our position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 64.901(a) – Inaccurate Cost Study Adjustments – Assets and Expenses

CONDITION

AAD obtained and examined the Beneficiary's supporting documentation for all 102 cost study adjustments (i.e., 25 - 26 adjustments each period) for its December 31, 2014, March 31, 2015, June 30, 2015, and September 30, 2015 High Cost data filings, to determine whether the Beneficiary's cost study adjustments were accurately calculated for High Cost program purposes. The Beneficiary used incorrect account balances in its calculations to allocate cost for certain assets (including the associated depreciation accounts) and expense accounts for its December 31, 2014, March 31, 2015, June 30, 2015, and September 30, 2015 High Cost data filing, as summarized below:[16]

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[14] *See* E-mail from the Beneficiary's consultant, April 27, 2022.

[15] *See* Connect America Fund, et al., WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 *(2018).*

[16] *See* 47 C.F.R. § 64.901(a)(2014).

a) 28 inaccurate adjustments relating to the removal of non-regulated telephone plant under construction, general support assets, central office equipment, and cable and wire facilities (CFW) along with the corresponding accumulated depreciation based on incorrect values due to the following issues:
    1. The non-regulated value of the Telephone Plant Under Construction (TPUC) was calculated omitting a non-regulated activity.
    2. The non-regulated value of the CWF was calculated using a non-regulated amount that was not supported in the CWF study.
    3. The values used by the Beneficiary for depreciation were not accurately calculated (see DAF# 1). These errors affected all filing periods.

b) One adjustment in Accounts 6423 (Buried Cable Expense) and 6561-2423 (Depreciation Expense – Buried Cable) was not recorded properly on its cost study. This error only affected the December 31, 2014 filing.

c) A non-regulated adjustment to account for cost associated with non-regulated activities included as part of accounts 6710 and 6720 (Corporate Operations) was omitted. AAD used the allocation developed by the Beneficiary for its non-regulated support assets to determine the non-regulated portion of Corporate Operations expense. This omission affected all filing periods.

Thus, AAD summarized the following variances between the Beneficiary's reported account balances as a result of the Beneficiary's recorded cost study adjustments and AAD's recalculation of the adjustments below:

Account Description[17]	**Variances for the 12 month ended Dec. 31, 2014 Overstated/ (Understated)**	**Variances for the 12 month ended Mar. 30, 2015 Overstated/ (Understated)**	**Variances for the 12 month ended June. 30, 2015 Overstated/ (Understated)**	**Variances for the 12 month ended Sept. 30, 2015 Overstated/ (Understated)**
TPUC (Acct. 2003)	($2,195)	$0	$0	$0
Buried Cable (Acct 2423)	$2,090	$53,955	$53,955	$53,955
Accumulated Depreciation – General Support (Acct 3100-21XX)	($75,255)	($25,250)	($46,270)	($63,289)
Accumulated Depreciation - COE Switching (Acct 3100-2212)	($2,540)	($162,426)	($2,181)	($4,482)
Accumulated Depreciation - COE Transmission (Acct 3100-2232)	($8,852)	$160,890	($5,078)	($3,652)
Accumulated Depreciation – Buried Cable (Acct 3100-2423)	($60,761)	$408	($7,258)	($15,982)
Buried Cable Expense (Acct. 6423)	$1,315	$0	$0	$0

[17] *See* 47 C.F.R. §§ 32.2003, 32.2423, 32.3100, 32.6423, 32.6560 and 32.6720(2014).

Depreciation Expense – General Support (Acct 6561-21XX)	($81,166)	($83,007)	($86,243)	($83,445)
Depreciation Expense – COE Switching (Acct 6561-2212)	($2,487)	($11,838)	($11,183)	($7,925)
Depreciation Expense – COE Transmission (Acct 6561-2232)	($7,263)	($1,905)	$16,673	$8,717
Depreciation Expense – Buried Cable (Acct 6561-2423)	($56,007)	($62,702)	($43,415)	($44,767)
General and Administrative Expense (Acct 6720)	($241,158)	($202,218)	($199,450)	($191,282)

Because the Beneficiary did not accurately calculate its cost study adjustments or correctly recorded its cost study adjustments, AAD concludes that the Beneficiary did not report the correct amounts for High Cost program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure it reports accurate amounts for High Cost program purposes. The Beneficiary indicated to AAD that there was an error in the calculation of the adjustments.[18]

EFFECT

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

Support Type	Monetary Effect
HCL	$23,583
ICLS	$23,314
SVS	($23,286)
Total	**$23,611**

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the recommended recovery amounts identified in the Effect section above. In addition, AAD recommends that USAC Management consider further review of the Beneficiary's cost study adjustment reporting for periods before and after the audit period as the Beneficiary continues receiving legacy funds.

The Beneficiary must implement an adequate system to properly collect, monitor and report the correct amounts for High Cost Program purposes. The Beneficiary must develop and implement policies, procedures and processes describing how the Beneficiary will ensure it includes and uses the proper balances when calculating costs study adjustments that are submitted for High Cost program purposes. In addition, the Beneficiary must track regulated/non regulated activities and implement a review process to ensure that all cost study adjustments are accurately performed and included. Further, the Beneficiary may learn more

[18] Beneficiary response to the Exception Summary, received April 25, 2022.

about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary agrees with the findings and has made changes to processes for the cost study adjustments to ensure accurate balances are being used. In addition, the calculation of adjustments are now done differently and will eliminate any chance of keying errors or errors due to changes made during the completion process. Any adjustments associated with Depreciation Expense were due to finding #1, and that has already been addressed. We also believe that the monetary impact of this finding my[sic] be inaccurately stated as the company was over the Corporate Operation cap limit during this time period, so removing additional Corporate Operation expenses would not have had as large of an impact on the Cost Study and HCL filing.

AAD RESPONSE

The Beneficiary stated in its response that, "[w]e also believe that the monetary impact of this finding my[sic] be inaccurately stated as the company was over the Corporate Operation cap limit during this time period, so removing additional Corporate Operation expenses would not have had as large of an impact on the Cost Study and HCL filing." The Beneficiary is correct that the company was over the corporate operations limit during the audit period. The entire monetary effect for this finding was driven by the non-corporate operations accounts noted above. Therefore, our position on this finding remains unchanged.

Finding #4: 47 C.F.R. § 32.2(a)(b) - Misclassified Expense

CONDITION

AAD obtained and examined the Beneficiary's supporting documentation, including the general ledger, continuing property records (CPR) and cost study adjustments, to determine whether the Beneficiary recorded its expenses, including a non-statistical judgmental sample of 22 expense transactions totaling $533,367, to the proper general ledger account for High Cost program purposes. The Beneficiary did not properly classify one transaction, as described below.

The Beneficiary incorrectly recorded a portion of one of the 22 expense samples, totaling $27,043. The Beneficiary allocated $26,796 to General Purpose Computers Expense (Account 6124)[19], $232 to Engineering Expense (Account 6535)[20], and $15 to Customer Services (Account 6623).[21] AAD examined the invoice detail and determined that $26,796 should be reclassified from general purpose computers expense to customer services expense. General purpose computers expense should be reserved for, 'the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems.' This misclassified expense affected both the June 30, 2015 and September 30, 2015 High Cost data filings.

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[19] *See* 47 C.F.R. § 32.6124.
[20] *See* 47 C.F.R. § 32.6535.
[21] *See* 47 C.F.R. § 32.6623.

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

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly record expenses to the proper general ledger account for High Cost program purposes. The Beneficiary indicated to AAD that the software is used for multiple business processes and therefore was correctly classified.[22]

EFFECT

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

Support Type	Monetary Effect and Recommended Recovery
HCL	$7,962

RECOMMENDATION

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

The Beneficiary must implement an adequate system to properly collect, monitor and record expenses to the proper general ledger account for High Cost Program purposes. The Beneficiary must develop and implement policies, procedures, and processes that describes how the Beneficiary will ensure the recording of transactions to the proper Part 32 accounts and that transactions and adjustments are processed to the proper accounting periods for the account balances that are submitted for High Cost Program purposes. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> The Beneficiary responded in the intial response that the software expense noted was not only used for customer service, but also for accounting, mapping and other areas. In order for this expense to be allocated based on all of those items, if it was booked to Corp Operations, all of those activities would have been used to allocate.

AAD RESPONSE

The Beneficiary stated in its response that, "the software expense noted was not only used for customer service, but also for accounting, mapping and other areas." AAD does not dispute the software expense should be allocated to the functions that the software supports. As noted above, AAD disagrees with the

[22] Beneficiary response to the Exception Summary, received April 25, 2022.

portion of the software that was allocated and recorded to general computer expense. Therefore, our position on this finding remains unchanged.

Finding #5: 47 C.F.R. § 51.917(d) (1) (iv) – Inaccurate Revenues: Intrastate Terminating Switched Access Service

CONDITION

AAD obtained and examined the Beneficiary's billing reports and general ledger to determine whether the Beneficiary reported accurate Intrastate Terminating Switched Access Service Revenues (Intrastate Revenues) for High Cost program purposes.[23] The total Intrastate Revenues that were identified on the Beneficiary's billing reports and general ledger did not agree to the revenues reported by the Beneficiary on its CAF ICC filings. AAD summarized the differences below:

Revenues	Program Year 2014-2015
Intrastate - As Reported	$108,715
Intrastate - Per the Billing Report and General Ledger	$100,915
Over/(Under) Stated Intrastate Revenues	**$7,800**

Because the Beneficiary's supporting documentation (the billing report and the general ledger) did not agree to the amounts that were reported, AAD concludes that the Beneficiary did not accurately report its Intrastate Revenues. The Beneficiary must report accurate Intrastate Revenues 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 Intrastate Revenues reported for High Cost Purposes. The Beneficiary indicated that the overstated revenues resulted from an error in monthly reporting due to the summarization of access revenues.[24]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from the total amount reported by the Beneficiary in its respective account on the CAF ICC filing.[25] AAD summarized the results below:

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[23] *See* 47 C.F.R. §§ 51.917(d)(1)(iv) and 51.917(d)(1)(iii) (2014).

[24] Beneficiary response to the Exception Summary, received April 25, 2022.

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

Support Type	Monetary Effect and Recommended Recovery
CAF ICC	$3,900

RECOMMENDATION

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

The Beneficiary must ensure it has an adequate system to collect, monitor, and report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules. The Beneficiary must also develop and implement policies, procedures, and processes that describes how the Beneficiary collects and retains documentation, and reconciles revenue balances from its billings recorded in its financial records and included in the CAF ICC and Tariff Review Plans to insure the accuracy of revenue balances that are submitted for High Cost Program purposes. The Beneficiary must establish a review process to validate the accuracy and completeness of underlying reports used for the cost study and HCP Forms filings. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> The Beneficiary agrees with the finding and has made changes to reporting procedures to include these revenues. The revenues that were not reported had been coming from a separate report. This report has been changed to include the revenues mentioned in the summary and they are reported each month to the pool. This was done shortly after the time period in question, however it had not been done for the time of the audit period.

Finding #6: 47 C.F.R. § 65.820(e)(5) – Inaccurate Reporting: Cash Working Capital

CONDITION

AAD obtained and examined the Beneficiary's general ledger and cost study adjustments documentation for the twelve months ended December 31, 2014 to determine whether the cash working capital (CWC) was calculated and reported properly for High Cost program purposes.[26] AAD determined that the Beneficiary used an incorrect depreciation expense amount (see Finding #1)[27] and used the unlimited corporate operations expense amount (i.e., the uncapped amount) when calculating its CWC[28] and summarized the reporting variance below:

[26] *See* 47 C.F.R. § 65.820(e)(5) (2014).

[27] *See* Finding #1 – 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation.

[28] *Connect Am. Fund A Nat'l Broadband Plan for Our Future Establishing Just & Reasonable Rates et. al., 26 FCC Rcd. 17663, para. 229, (Nov. 18, 2011).*

Description	As Filed (Part 36 Cost Study) A	AAD Recalculated Amount B	Variance (Overstatement) C=A-B
Cash Working Capital	$637,262	$585,674	$51,588

Because the Beneficiary's reported balances included an incorrect CWC calculation, AAD concludes that the Beneficiary did not calculate and reported the CWC in the correct amount in its High Cost filings.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to calculate and report CWC correctly for High Cost program purposes. The Beneficiary indicated to AAD that the calculation was done correctly; however, because expenses claimed for the provision of Universal Support are in question (Finding 3), this has caused the amounts to be incorrect.[29]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from the amount reported on the Beneficiary's Part 36 Cost Study as well as consideration for the variances noted in Findings 1, 3, and 4 and summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
ICLS	$1,266

RECOMMENDATION

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

The Beneficiary must implement an adequate system to collect, monitor, and report accurate cash working capital amounts for High Cost Program purposes. The Beneficiary must develop and implement policies, procedures, and processes that describes how the Beneficiary will properly calculate the cash working capital amount used in its cost study to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> The Beneficiary agrees with a portion of this finding. This occurred due to expenses in the prior findings causing the expense balances to be incorrect. In addition, if the company is over the Corporate Operations Cap, the CWC is removed as part of the the [sic] Part 36/69 allocation process based on the Corporate Operations expenses removed.

[29] Beneficiary response to the Exception Summary, received April 25, 2022.

AAD RESPONSE

The Beneficiary agreed that the CWC calculation included ineligible expenses that were noted in the prior finding. However, the Beneficiary also indicated that with the exception of the ineligible expenses, the CWC was calculated correctly. The Beneficiary stated in its response that, "if the company is over the Corporate Operations Cap,the CWC is removed as part of the the [sic] Part 36/69 allocation process based on the Corporate Operations expenses removed." The Beneficiary's inclusion of the expenses noted in the prior finding notwithstanding, AAD noted that the capped Corporate Operations expense used in the Part 36/69 study was $2,849,891. The capped Corporate Operations expense calculated by the HCL algorithm ranged from $1,819,540 to $1,827,547 depending upon the dash filing. Because the Beneficiary useed over $1M above the calculated capped Corporate Operation expense amount in its Part 36 Cost study, AAD is not assured that the Beneficiary's capped corporate operations expense allocation process is sufficiently working properly. Therefore, our position on this finding remains unchanged.

Finding #7: 47 C.F.R. § 36.151 – Inaccurate Cable and Wire Categorization Allocation

CONDITION

AAD obtained and examined the Beneficiary's Cable and Wire Facilities (CWF) route allocation to determine whether the Beneficiary allocated and assigned the investment to the proper category and accurately reported on its March 31, 2015, June 30, 2015 and September 30, 2015 HCL Dash filings for High Cost program purposes. AAD determined that the Beneficiary did not properly allocate its CWF investment and did not use accurate information for the development of the factors used to determine its wideband allocation.

Although the Beneficiary accounted for all routes, the Beneficiary did not properly update the route allocation for changes from the prior year related to the usage of fibers for Routes 16.1 and 17.[30] Therefore, the Beneficiary did not account for the routes at full cost. The Beneficiary accounted for Route 16.1 at $8,857 instead of its full cost of $17,715 and accounted for Route 17 at $50,685 instead of its full cost of $101,370, in the CWF route allocation.

In addition, the Beneficiary did not update the message loop counts used in the development of the Category 1 Wideband Reallocation factor for the Division 1 (Original ILEC) CWF allocation. The Beneficiary used the loop count of 7,543 in the submitted CWF Wideband Reallocation versus the actual loop count of 7,637 as submitted in the Division 1 Cost Study.

The Beneficiary's failure to update the full cost of its routes affected the route allocation for both Division 1 and Division 2 (Acquired Exchange); however, the Beneficiary's failure to update the message loops only affected the route allocation for Division 1. AAD summarized the CWF categorization variances between the reported and recalculated categorization allocation below:

[30] *See* 47 C.F.R. § 36.151 (2014).

CWF Category[31]	Reported Category Allocation A	AAD Recalculated Category Allocation B	Variance Overstated/ (Understated) C=A-B
Average Category 1 Divisions 1 and 5 (RUS Investment)	$42,853,271	$42,881,535	($28,264)
Average Category 1 Division 2	$16,484,748	$16,426,804	$57,944
Category 1 Total Company	$59,338,020	$59,308,339	$29,681
Category 2.1 Total Company	$465,068	$467,144	($2,076)
Category 2.3 Total Company	$952,938	$960,613	($7,675)
Category 2.4 Total Company	$3,391,557	$3,403,489	($11,932)
Category 3 Total Company	$588,836	$591,949	($3,113)
Category 4 Total Company	$321,151	$325,717	($4,566)

Because the Beneficiary did not make the proper updates to its categorization allocation calculation, AAD concludes that the Beneficiary did not assign and report accurate CWF category balances.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to calculate the proper CWF route allocation balances reported for High Cost program purposes. The Beneficiary informed AAD that the inaccurate CWF balances resulted from fiber usage being incorrectly categorized.[32]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from or adding or the understated amount to the balances for Categories 1 through 4 and average Category 1 reported by the Beneficiary in its High Cost filing and summarized the results below:

[31] See 47 C.F.R. §§ 36.152 - 157 (2014).

[32] Beneficiary response to the Exception Summary, received April 25, 2022.

Support Type	Monetary Effect and Recommended Recovery
HCL	($3,961)
ICLS	$983
SVS	$1,681
Total	**($1,297)**

RECOMMENDATION

The Beneficiary must ensure it has an adequate system to collect, monitor, and report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will accurately calculate, categorize and report allocated CWF balances for High Cost Program purposes. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary has made changes to the supporting workpapers for this finding to correct the fiber usage of the route. This was corrected in subsequent years[sic] workpapers and will not pose[sic] future findings.

Finding #8: 47 C.F.R. § 32.2000(g) (2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

CONDITION

AAD obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated its depreciation expense (DE) and accumulated depreciation (AD) for High Cost program purposes. The Beneficiary did not calculate its depreciation expense using the average monthly asset balance as the Beneficiary removed any fully depreciated assets from the asset balance before calculating the depreciation expense. AAD recalculated the Beneficiary's depreciation expense (and associated accumulated depreciation) using the correct average monthly balances and compared the results of the recalculation to the amounts reported by the Beneficiary, identifying the following variances:

Account Description[33]	Variances for the 12 months ended Dec. 31, 2014 Overstated/ (Understated)	Variances for the 12 months ended Mar. 30, 2015 Overstated/ (Understated)	Variances for the 12 months ended June 30, 2015 Overstated/ (Understated)	Variances for the 12 months ended Sept. 30, 2015 Overstated/ (Understated)
AD – General Support (Acct 3100-2110)	($827,605)	$0	$0	$0

[33] *See* 47 C.F.R. §§ 32.3100 and 32.6560 (2014).

AD - COE Switching (Acct 3100-2210)	($377,216)	($452,280)	($447,820)	($468,702)
AD – COE Transmission (Acct 3100-2230)	($64,402)	($55,306)	($159,995)	($270,627)
AD – CWF (Acct 3100-2410)	($1,262,507)	($1,617,298)	($1,737,923)	($1,844,865)
DE – General Support (Acct 6560-2110)	($979,145)	$0	$0	$0
DE – COE Switching (Acct 6560-2210)	($13,121)	($15,608)	($15,815)	($20,875)
DE – COE Transmission (Acct 6560-2230)	($498,935)	($427,398)	($478,462)	$229,934
DE – CWF (Acct 6560-2410)	($974,418)	($690,431)	($609,482)	($512,273)

Because the Beneficiary removed fully depreciated assets instead of using an average monthly asset balance in its depreciation calculation, AAD concludes that the Beneficiary did not properly calculate the depreciation expense and associated accumulated depreciation expense reported for High Cost program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to correctly calculate the depreciation expense and accumulated depreciation. The Beneficiary informed AAD that the variance arose because depreciation was calculated based on the useful life of each asset.[34]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from or adding the understated amount to the total amount for depreciation expense and the associated accumulated depreciation amounts reported by the Beneficiary in the respective accounts on its High Cost filing. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	($238,921)
ICLS	($417,283)
SVS	($106,800)
Total	**($763,004)**

RECOMMENDATION

AAD does not recommend a recovery of funds at this time as the effect of the finding is an underpayment.[35]

AAD recommends that USAC Program Management consider further review of the Beneficiary's depreciation expense reporting for periods before and after the audit period as the Beneficiary is still receiving legacy funds.

[34] Beneficiary response to the Exception Summary, received April 25, 2022.

[35] USAC Program Management will decide whether to net the underpayment against the recommended recoveries for other findings in the USAC Management Response Section.

The Beneficiary must implement an adequate system to collect, monitor, report and properly calculate depreciation expense and accumulated depreciation reported for High Cost Program purposes. In addition, the Beneficiary must develop and implement policies, procedures, and processes describing how the Beneficiary will implement and maintain in its asset module the required depreciation calculation methodology of multiplying the state approved asset depreciation rate by the average of the monthly beginning and ending asset balances. Further, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary will be implementing changes in the calculation of depreciation expense (DE) and accumulated depreciation (AD) going forward. The Beneficiary will be adjusting the calculation to fit the rules in place and will be using average monthly balance on a going forward basis.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.1305(f) (2014)	(f) Unseparated corporate operations expenses, operating taxes, and the benefits and rent proportions of operating expenses. The amount for each of these categories of expense shall be the actual amount for that expense for the calendar year preceding each July 31st filing. The amount for each category of expense listed shall be stated separately.
#1	47 C.F.R. §54.1306(a)(3) (2014)	(a) Any incumbent local exchange carrier subject to § 54.1301(a) may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to § 54.1305 one or more times annually on a rolling year basis according to the schedule. (1) Submit data covering the last nine months of the previous calendar year and the first three months of the existing calendar year no later than September 30th of the existing year; (2) Submit data covering the last six months of the previous calendar year and the first six months of the existing calendar year no later than December 30th of the existing year; (3) Submit data covering the last three months of the second previous calendar year and the first nine months of the previous calendar year no later than March 30th of the existing year.
#1, #2	47 C.F.R. § 32.6232 (2014)	Circuit equipment expense. (a) This account shall include expenses associated with circuit equipment. Circuit equipment expenses shall be maintained in the following subaccounts: 6232.1 Electronic, 6232.2 Optical. (b) This subaccount 6232.1 Electronic shall include expenses associated with electronic circuit equipment. (c) This subaccount 6232.2 Optical shall include expenses associated with optical circuit equipment.
#2	47 C.F.R. § 54.7(a) (2014)	(a) A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.
#2	*FCC Reminds ETCs of High-Cost Support Requirements*, WC Docket No. 10-90, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (2015).	Under federal law, high-cost support provided to an ETC must be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol;

		• Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; • Political contributions; • Charitable donations; • Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and" Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages.
#2	*Connect America Fund, et al., WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 (2018).*	19. Personal Expenses.—Initially, we codify the existing prohibition on recovery from the high-cost program for personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for personal travel, personal vehicles, housing, such as rent, mortgages, or housing allowances, childcare, employee gifts, and entertainment-related expenses including food and beverage, regardless of whether such expenses are paid directly by the individual or indirectly by the carrier in the form of allowances or gifts.[47] Personal expenses are clearly not used for the provision of supported services and thus may not be recovered through high-cost support.[48] Furthermore, we caution recipients of high-cost support that recovering these types of expenses from high-cost support may constitute outright fraud, waste, and abuse on the Fund, subjecting employees, executives, and board members to personal civil and criminal liability. 20. The Commission already explicitly excludes personal travel expenses from high-cost support recovery.[50] Personal travel expenses include airfare, car rentals, gas, lodging, and meals for personal use. Commenters overwhelmingly agree that personal travel is unrelated to the provision of a supported service and may not be recovered through high-cost support.[51] In response to concerns raised by commenters, we find that, in contrast to personal travel expenses, reasonable work-related travel expenses are recoverable to the extent they are used for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended.[52] For example, if an ETC's technician travels to repair a supported facility and such travel requires overnight accommodation, the ETC may recover that employee's reasonable hotel costs.

		25. It is undisputed that gifts to employees may not be recovered through high-cost support.[64] Gifts to employees are unrelated to the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended, and therefore are excluded from high-cost support. 28. Expenses Unrelated To Operations.—We next codify the existing prohibitions on recovering support for expenses unrelated to operations—including political contributions, charitable donations, scholarships, membership fees and dues in clubs and organizations, sponsorships of conferences or community events, and penalties or fines for statutory or regulatory violations, penalties or fees for late payments on debt, loans, or other payments—from high-cost support.[76] ETCs calculate high cost universal support, including high cost loop support (HCLS) and Connect America Fund Broadband Loop Support (CAF BLS) (formerly interstate common line support (ICLS)), based on their eligible capital investment and operating expenses pursuant to section 54.303.[77] Expenses unrelated to operations, however, are not currently included in these high-cost support calculations.[78] Instead, under our current rules, "nonoperating expenses"—including political contributions, contributions for charitable, social, or community welfare purposes, membership fees and dues in social, service and recreational or athletic clubs and organizations, and penalties and fines on account of violations of statutes—are recorded in Account 7300, presumed excluded from the costs of service in setting rates, and not included in high-cost support calculations.[79] Expenses unrelated to operations have historically not been recoverable from high-cost support because by definition these expenses are not operational in nature and are ancillary to core business objectives. Expenses must fall within the scope of the statutory requirement that support be used "only for the provision, maintenance, and upgrading of facilities and services for which support is intended." [80] Below we find that various expenses unrelated to operations, including various Account 7300 nonoperating expenses, do not satisfy this standard and, thus, may not be recovered from high-cost support. 31. Charitable donations and scholarships are expenses unrelated to operations that may not be recovered from high-cost support.[87] We recognize the benefits charitable donations provide to the community, as raised by multiple commenters.[88] However, charitable donations are unrelated to the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended.[89]

		32. Membership fees and dues in clubs and organizations, including social, service, and recreational or athletic clubs and organizations, as well as trade associations and organizations that provide professional or trade certifications such as state bar associations, are expenses unrelated to operations excluded from high-cost support.[90] Commenters agree that these expenses related to social and recreational clubs and organizations are already excluded from high-cost support recovery.[91] But those same and other commenters also argue that membership fees and dues in trade associations, chambers of commerce, state bar associations and professional certifications for specialized employees should be recoverable.[92] We recognize the educational and training benefits that trade associations provide and that membership in chambers of commerce may help stimulate business.[93] However, as other commenters acknowledge, a function of many of these organizations is advocacy on behalf of their members for the purpose of influencing public policy[94] which is not used for the provision, maintenance, and upgrading of facilities and services for which support is intended.[95] Just as ETCs may not recover lobbying expenses under our rules, similarly, they may not recover membership fees in organizations that engage in lobbying.96 Further, professional affiliations or certifications such as state bar associations, accounting associations, or other professional groups may facilitate general corporate functions but are not used only for the provision of supported facilities and services.
#2, #3	47 C.F.R. § 32.2003 (2014)	Telecommunications plant under construction. (a) This account shall include the original cost of construction projects (note also § 32.2000(c)) of this part and the cost of software development projects that are not yet ready for their intended use. (b) There may be charged directly to the appropriate plant accounts the cost of any construction project which is estimated to be completed and ready for service within two months from the date on which the project was begun. There may also be charged directly to the plant accounts the cost of any construction project for which the gross additions to plant are estimated to amount to less than $100,000. (c) If a construction project has been suspended for six months or more, the cost of the project included in this account may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and reports those amounts in reports filed with the Commission pursuant to §§ 43.21(e) (1) and 43.21(e) (2) of this chapter. If a project is abandoned, the cost included in this account shall be charged to Account 7300, Nonoperating income and expense. (d) When any telecommunications plant, the cost of which has been included in this account, is completed ready for service, the cost thereof shall be credited to this account and charged to the appropriate telecommunications plant or other accounts.

#2	47 C.F.R. § 32.6110 (2014)	Network support expenses. (a) Companies shall use this account for expenses of the type and character detailed in Accounts 6112 through 6114. (b) Credits shall be made to this account by companies for amounts transferred to Construction and/or other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.
#2	47 C.F.R. § 32.6120 (2014)	General support expenses. Companies shall use this account for expenses of the type and character detailed in Accounts 6121 through 6124.
#2, #3	47 C.F.R. § 32.6423 (2014)	Buried cable expense. (a) This account shall include expenses associated with buried cable. (b) Subsidiary record categories shall be maintained as provided in § 32.2423(a) of subpart C.
#2	47 C.F.R. § 32.6510 (2014)	Other property, plant and equipment expenses. Companies shall use this account for expenses of the type and character detailed in Accounts 6511 and 6512.
#2	47 C.F.R. § 32.6530 (2014)	Network operations expense. Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6531 through 6535.
#2	47 C.F.R. § 32.6610 (2014)	Marketing. Companies shall use this account for expenses of the type and character detailed in Accounts 6611 through 6613.
#2	47 C.F.R. § 32.6620 (2014)	Companies shall use this account for expenses of the type and character detailed in Accounts 6621 through 6623.
#2, 3	47 C.F.R. § 32.6720 (2014)	General and administrative. This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating

		budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, Nonoperating income and expense, for lobbying expenses); (2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits; (3) Performing public relations and non-product-related corporate image advertising activities; (4) Administering relations, including negotiating contracts, with telecommunications companies and other utilities, businesses, and industries. This excludes sales contracts (see also Account 6611, Product management and sales); and (5) Administering investor relations. (e) Performing personnel administration activities. This includes: (1) Equal Employment Opportunity and Affirmative Action Programs; (2) Employee data for forecasting, planning and reporting; (3) General employment services; (4) Occupational medical services; (5) Job analysis and salary programs; (6) Labor relations activities; (7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs; (8) Personnel policy development; (9) Employee communications; (10) Benefit administration;

		(11) Employee activity programs; (12) Employee safety programs; and (13) Nontechnical training course development and presentation. (f) Planning and maintaining application systems and databases for general purpose computers. (g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims. (i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.
#2	47 C.F.R. § 32.7300(h)(1-3) (2014)	Nonoperating income and expense. (h) Costs that are typically given special regulatory scrutiny for ratemaking purposes. Unless specific justification to the contrary is given, such costs are presumed to be excluded from the costs of service in setting rates.

		(1) Lobbying includes expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances, or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises, or for the purpose of influencing the decisions of public officials. This also includes advertising, gifts, honoraria, and political contributions. This does not include such expenditures which are directly related to communications with and appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations; (2) Contributions for charitable, social or community welfare purposes; (3) Membership fees and dues in social, service and recreational or athletic clubs and organizations
#2	47 U.S.C. § 254 (e) (2014)	After the date on which Commission regulations implementing this section take effect, only an eligible telecommunications carrier designated under section 214(e) of this title shall be eligible to receive specific Federal universal service support. A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Any such support should be explicit and sufficient to achieve the purposes of this section.
#3	47 C.F.R. § 64.901(a) (2014)	(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.
#3	47 C.F.R. § 32.2423 (2014)	Buried cable. (a) This account shall include the original cost of buried cable as well as the cost of other material used in the construction of such plant. This account shall also include the cost of trenching for and burying cable run in conduit not classifiable to Account 2441, Conduit Systems. Subsidiary record categories, as defined below, are to be maintained for nonmetallic buried cable and metallic buried cable. (1) *Nonmetallic cable*. This subsidiary record category shall include the original cost of optical fiber cable and other associated material used in constructing a physical path for the transmission of telecommunications signals. (2) *Metallic cable*. This subsidiary record category shall include the original cost of single or paired conductor cable, wire and other associated material used in constructing a physical path for the transmission of telecommunications signals. (b) The cost of pumping water out of manholes and of cleaning manholes and ducts in connection with construction work and the cost of permits and privileges for the construction of cable and wire

		facilities shall be included in the account chargeable with such construction.
#4	47 C.F.R. § 32.2(a)(b) (2014)	(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure. (b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers.
#4	47 C.F.R. § 32.6124 (2014)	General purpose computers expense. This account shall include the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. This excludes the cost of preparation of input data or the use of outputs which are chargeable to the accounts appropriate for the activities being performed. Also excluded are costs incurred in planning and maintaining application systems and databases for general purpose computers. (See also § 32.6720, General and administrative.) Separately metered electricity for general purpose computers shall also be included in this account.
#4	47 C.F.R. § 32.6623 (2014)	(a) This account shall include costs incurred in establishing and servicing customer accounts. This includes: (1) Initiating customer service orders and records; (2) Maintaining and billing customer accounts; (3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills;

		(4) Collecting and reporting pay station receipts; and (5) Instructing customers in the use of products and services. (b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by part 43 of this Commission's rules and regulations.
#5	47 C.F.R. § 51.917(d)(1)(iv) (2014)	(iv) Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the 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.
#5	47 C.F.R. § 51.917(d)(1)(iii) (2014)	**(iii)** Beginning July 1, 2014, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909 (including the reduction in intrastate End Office Switched Access Service rates), adjusted to reflect the True-Up Adjustment for Transitional Intrastate Access Service for the year beginning July 1, 2012; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2014 using the target methodology required by § 51.705, adjusted to reflect the True-Up Adjustment for Reciprocal Compensation for the year beginning July 1, 2012. (D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012 multiplied by negative one.
#6	47 C.F.R. § 65.820(e)(5) (2014)	(e)In lieu of a full lead-lag study, carriers may calculate the cash working capital allowance using the following formula. (5) Compute the cash working capital allowance by multiplying the interstate cash operating expenses (i.e., operating expenses minus

		depreciation and amortization) plus interest by the percentage computed in paragraph (e)(4) of this section.
#6	*In the Matter of Connect Am. Fund A Nat'l Broadband Plan for Our Future Establishing Just & Reasonable Rates for Local Exch. Carriers High-Cost Universal Serv. Support Developing an Unified Intercarrier Comp. Regime Fed.-State Joint Bd. on Universal Serv. Lifeline & Link-Up Universal Serv. Reform -- Mobility Fund, 26 FCC Rcd. 17663,para. 229, (Nov. 18, 2011)*	*Discussion*. As supported by many parties, we will adopt the more modest reform proposal to extend the limit on recovery of corporate operations expense to ICLS effective January 1, 2012. We concluded in the Universal Service First Report and Order that the amount of recovery of corporate operations expense from HCLS should be limited to help ensure that carriers use such support only to offer better service to their customers through prudent facility investment and maintenance, consistent with their obligations under section 254(k). We now conclude that the same reasoning applies to ICLS. Extending the limit on the recovery of corporate operations expenses to ICLS likewise furthers our goal of fiscal responsibility and accountability.
#7	47 C.F.R. § 36.151 (2014)	General.(a) Cable and Wire Facilities, Account 2410, includes the following types of communications plant in service: Poles and antenna supporting structures, aerial cable, underground cable, buried cable, submarine cable, deep sea cable, intrabuilding network cable, aerial wire and conduit systems.(b) For separations purposes, it is necessary to analyze the cable and wire facilities classified in subordinate records in order to determine their assignment to the categories listed in the following paragraphs. (c) In the separation of the cost of cable and wire facilities among the operations, the first step is the assignment of the facilities to certain categories. The basic method of making this assignment is the identification of the facilities assignable to each category and the determination of the cost of the facilities so identified. Because of variations among companies in the character of the facilities and operating conditions, and in the accounting and engineering records maintained, the detailed methods followed, of necessity, will vary among the companies. The general principles to be followed, however, will be the same for all companies. (d) The second step is the apportionment of the cost of the facilities in each category among the operations through the application of appropriate factors or by direct assignment.
#7	47 C.F.R. § 36.152 (2014)	Categories of Cable and Wire Facilities (C&WF). (a) C&WF are basically divided between exchange and interexchange. Exchange C&WF consists of the following categories: (1) Exchange Line C&WF Excluding Wideband - Category 1 - This category includes C&W facilities between local central offices and subscriber premises used for message telephone, private line, local channels, and for circuits between control terminals and radio

		stations providing very high frequency maritime service or urban or highway mobile service. (2) Wideband and Exchange Trunk C&WF - Category 2 - This category includes all wideband, including Exchange Line Wideband and C&WF between local central offices and Wideband facilities. It also includes C&WF between central offices or other switching points used by any common carrier for interlocal trunks wholly within an exchange or metropolitan service area, interlocal trunks with one or both terminals outside a metropolitan service area carrying some exchange traffic, toll connecting trunks, tandem trunks principally carrying exchange traffic, the exchange trunk portion of WATS access lines, the exchange trunk portion of private line local channels, and the exchange trunk portion of circuits between control terminals and radio stations providing very high frequency maritime service or urban or highway mobile service. (3) The procedures for apportioning the cost of exchange cable and wire facilities among the operations are set forth in §§ 36.154 and 36.155. (b) Interexchange C&WF - Category 3 - This category includes the C&WF used for message toll and toll private line services. It includes cable and wire facilities carrying intertoll circuits, tributary circuits, the interexchange channel portion of special service circuits, circuits between control terminals and radio stations used for overseas or coastal harbor service, interlocal trunks between offices in the different exchange or metropolitan service areas carrying only message toll traffic and certain tandem trunks which carry principally message toll traffic. (1) The procedures for apportioning the cost of interexchange cable and wire facilities among the operations are set forth in § 36.156. (c) Host/Remote Message C&WF - Category 4 - This category includes the cost of message host/remote location C&WF for which a message circuit switching function is performed at the host central office. It applies to C&WF between host offices and all remote locations. The procedures for apportioning the cost of these facilities among the operations are set forth in § 36.157. (d) Effective July 1, 2001, through December 31, 2024, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the average balance of Account 2410 to the categories/subcategories, as specified in paragraph (a) through (c) of this section based on the relative percentage assignment of the average balance of Account 2410 to these categories/subcategories during the twelve-month period ending December 31, 2000.
#7	47 C.F.R. § 36.153 (2014)	Assignment of Cable and Wire Facilities (C&WF) to categories.

		(a) Cable consists of: Aerial cable, underground cable, buried cable, submarine cable, deep sea cable and intrabuilding network cable. Where an entire cable or aerial wire is assignable to one category, its cost and quantity are, where practicable, directly assigned. (1) Cable. (i) There are two basic methods for assigning the cost of cable to the various categories. Both of them are on the basis of conductor cross section. The methods are as follows: (A) By section of cable, uniform as to makeup and relative use by categories. From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved, for each category. The corresponding percentages of use, or reservation, are applied to the cost of the section of cable, i.e., sheath meters times unit cost per meter, to obtain the cost assignable to each category. (B) By using equivalent pair kilometers, i.e., pair kilometers expressed in terms of equivalent gauge. From an analysis of cable engineering and assignment records, determine the equivalent pair kilometers in use for each category by type of facility, e.g., quadded, paired. The equivalent pair kilometers are then divided by a cable fill factor to obtain the equivalent pair kilometers in plant. The total equivalent pair kilometers in plant assigned to each category is summarized by type of facility, e.g., quadded and paired, and priced at appropriate average unit costs per equivalent pair kilometer in plant. If desired, this study may be made in terms of circuit kilometers rather than physical pair kilometers, with average cost and fill data consistent with the basis of the facilities kilometer count. (ii) In the assignment of the cost of cable under the two basic methods described in § 36.153(a)(1)(i) consideration is given to the following: (A) Method (A) described in § 36.153(a)(1)(i)(A) will probably be found more desirable where there is a relatively small amount of cable of variable make-up and use by categories. Conversely, method (B) described in § 36.153(a)(1)(i)(B) will probably be more desirable where there is a large amount of cable of variable make-up and use by categories. However, in some cases a combination of both methods may be desirable. (B) It will be desirable in some cases to determine the amount assignable to a particular category by deducting from the total the sum of the amounts assigned to all other categories. (C) For use in the assignment of poles to categories, the equivalent sheath kilometers of aerial cable assigned to each category are

		determined. For convenience, these quantities are determined in connection with assignment of cable costs. (D) Where an entire cable is assignable to one category, its costs and quantity are, where practicable, directly assigned. (iii) For cables especially arranged for high-frequency transmission such as shielded, disc-insulated and coaxial, recognition is given to the additional costs which are charged to the high-frequency complement. (2) Cable Loading. (i) Methods for assigning the cost of loading coils, cases, etc., to categories are comparable with those used in assigning the associated cable to categories. Loading associated with cable which is directly assigned to a given category is also directly assigned. The remaining loading is assigned to categories in either of the following bases: (A) By an analysis of the use made of the loading facilities where a loading coil case includes coils assignable to more than one category, e.g., in the case of a single gauge uniformly loaded section, the percentage used in the related cable assignment are applicable, or (B) By pricing out each category by determining the pair meters of loaded pairs assigned to each category and multiplying by the unit cost per pair meter of loading by type. (3) Other Cable Plant. (i) In view of the small amounts involved, the cost of all protected terminals and gas pressure contactor terminals in the toll cable subaccounts is assigned to the appropriate Interexchange Cable & Wire Facilities categories. The cost of all other terminals in the exchange and toll cable subaccounts is assigned to Exchange Cable and Wire Facilities. (b) Aerial Wire. (1) The cost of wire accounted for as exchange is assigned to the appropriate Exchange Cable & Wire Facilities categories. The cost of wire accounted for as toll, which is used for exchange, is also assigned to the appropriate Exchange Cable & Wire Facilities categories. The cost of the remaining wire accounted for as toll is assigned to the appropriate Interexchange Cable & Wire Facilities categories as described in § 36.156. For companies not maintaining exchange and toll subaccounts, it is necessary to review the plant records and identify wire plant by use. The cost of wire used for providing circuits directly assignable to a category is assigned to that category. The cost of wire used for providing circuit facilities jointly

		used for exchange and interexchange lines is assigned to categories on the basis of the relative number of circuit kilometers involved. (c) Poles and Antenna Supporting Structures. (1) In the assignment of these costs, anchors, guys, crossarms, antenna supporting structure, and right-of-way are included with the poles. (2) Poles. (i) The cost of poles is assigned to categories based on the ratio of the cost of poles to the total cost of aerial wire and aerial cable. (d) Conduit Systems. (1) The cost of conduit systems is assigned to categories on the basis of the assignment of the cost of underground cable.
#7	47 C.F.R. § 36.154 (2014)	Exchange Line Cable and Wire Facilities (C&WF) - Category 1 - apportionment procedures. (a) Exchange Line C&WF - Category 1. The first step in apportioning the cost of exchange line cable and wire facilities among the operations is the determination of an average cost per working loop. This average cost per working loop is determined by dividing the total cost of exchange line cable and wire Category 1 in the study area by the sum of the working loops described in subcategories listed below. The subcategories are: Subcategory 1.1 - State Private Lines and State WATS Lines. This subcategory shall include all private lines and WATS lines carrying exclusively state traffic as well as private lines and WATS lines carrying both state and interstate traffic if the interstate traffic on the line involved constitutes ten percent or less of the total traffic on the line. Subcategory 1.2 - Interstate private lines and interstate WATS lines. This subcategory shall include all private lines and WATS lines that carry exclusively interstate traffic as well as private lines and WATS lines carrying both state and interstate traffic if the interstate traffic on the line involved constitutes more than ten percent of the total traffic on the line. Subcategory 1.3 - Subscriber or common lines that are jointly used for local exchange service and exchange access for state and interstate interexchange services. (b) The costs assigned to subcategories 1.1 and 1.2 shall be directly assigned to the appropriate jurisdiction.

		(c) Effective January 1, 1986, 25 percent of the costs assigned to subcategory 1.3 shall be allocated to the interstate jurisdiction. (d)-(f) [Reserved] (g) Effective July 1, 2001, through December 31, 2024, all study areas shall apportion Subcategory 1.3 Exchange Line C&WF among the jurisdictions as specified in paragraph (c) of this section. Direct assignment of subcategory Categories 1.1 and 1.2 Exchange Line C&WF to the jurisdictions shall be updated annually as specified in paragraph (b) of this section.
#7	47 C.F.R. § 36.155 (2014)	Wideband and exchange trunk (C&WF) - Category 2 - apportionment procedures. (a) The cost of C&WF applicable to this category shall be directly assigned where feasible. If direct assignment is not feasible, cost shall be apportioned between the state and interstate jurisdictions on the basis of the relative number of minutes of use. (b) Effective July 1, 2001, through December 31, 2024, all study areas shall apportion Category 2 Wideband and exchange trunk C&WF among the jurisdictions using the relative number of minutes of use, as specified in paragraph (a) of this section, for the twelve-month period ending December 31, 2000. Direct assignment of any Category 2 equipment to the jurisdictions shall be updated annually.
#7	47 C.F.R. § 36.156 (2014)	Interexchange Cable and Wire Facilities (C&WF) - Category 3 - apportionment procedures. (a) An average interexchange cable and wire facilities cost per equivalent interexchange telephone circuit kilometer for all circuits in Category 3 is determined and applied to the equivalent interexchange telephone circuit kilometer counts of each of the classes of circuits. (b) The cost of C&WF applicable to this category shall be directly assigned where feasible. If direct assignment is not feasible, cost shall be apportioned between the state and interstate jurisdiction on the basis of conversation-minute kilometers as applied to toll message circuits, etc. (c) Effective July 1, 2001, through December 31, 2024, all study areas shall directly assign Category 3 Interexchange Cable and Wire Facilities C&WF where feasible. All study areas shall apportion the non-directly assigned costs in Category 3 equipment to the jurisdictions using the relative use measurements, as specified in paragraph (b) of this section, during the twelve-month period ending December 31, 2000.

#7	47 C.F.R. § 36.157 (2014)	Host/remote message Cable and Wire Facilities (C&WF) - Category 4 - apportionment procedures. (a) Host/Remote Message C&WF - Category 4. The cost of host/remote C&WF used for message circuits, i.e., circuits carrying only message traffic, is included in this category. (1) The cost of host/remote message C&WF excluding WATS closed end access lines for the study area is apportioned on the basis of the relative number of study area minutes-of-use kilometers applicable to such facilities. (2) The cost of host/remote message C&WF used for WATS closed end access for the study area is directly assigned to the appropriate jurisdiction. (b) Effective July 1, 2001, through December 31, 2024, all study areas shall apportion Category 4 Host/Remote message Cable and Wire Facilities C&WF among the jurisdictions using the relative number of study area minutes-of-use kilometers applicable to such facilities, as specified in paragraph (a)(1) of this section, for the twelve-month period ending December 31, 2000. Direct assignment of any Category 4 equipment to the jurisdictions shall be updated annually.
#8	47 C.F.R. § 32.2000(g)(2) (2014)	Depreciation charges. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or

		surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.
#8, #3	47 C.F.R. § 32.3100 (2014)	Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses.
#8, #3	47 C.F.R. § 32.6560 (2014)	Depreciation and amortization expenses. Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565.

This concludes the report.

Attachment E

HC2021LR009

Eastex Telephone Cooperative, Inc.
Audit Reference ID: HC2021LR009
(SAC No.: 442068)

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: 8/23/2022

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

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KPMG LLP
Suite 2000
1021 East Cary Street
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EXECUTIVE SUMMARY

August 23, 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 Eastex Telephone Cooperative, Inc. Study Area Code ("SAC") No. 442068 ("Eastex" or "Beneficiary") for disbursements, of $15,709,040 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 August 17, 2021 to August 23, 2022 and our results are as of audit fieldwork end date August 23, 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 objectives. 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 $15,709,040, 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 $2,535 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
Eastex	Eastex Telephone Cooperative, Inc.
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 Impact Overpayment (Underpayment)[1]			
	HCL	CAF BLS	CAF ICC	Total
HC2021LR009-F01: 47 C.F.R. 54.903(a)(4) Inaccurate Revenues – The Beneficiary was unable to reconcile the reported revenues to its internal records and it did not make timely adjustments to the reported revenues as prescribed by FCC Rules.	$0	($3,623)	$0	($3,623)
HC2021LR009-F02: 47 C.F.R. § 32.2000(g)(2)(iii) - Inaccurate Depreciation Calculation – The Beneficiary used month end balances for one month instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules.	$4,742	$1,416	$0	$6,158
Total Net Monetary Effect	$4,742	($2,207)	$0	$2,535

[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 442068, 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 also 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)**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	$0	($3,623)	$0	($3,623)	
Finding #2	$4,742	$1,416	$0	$6,158	
Mechanism Total	$4,742	($2,207)	$0	$2,535	

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 program 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 $15,709,040, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Eastex Telephone Cooperative (SAC No. 442068), the subject of this performance audit, is a telecommunications company headquartered in Henderson, Texas that serves 21 exchange areas with advanced digital switching equipment and nearly 9,000 route miles of network cable. The Cooperative serves 11 counties throughout East Texas, providing broadband Internet, voice, high-capacity data transport, Wi-Fi, security, and automation services. Eastex Telephone Cooperative fully owns Eastex Celco, LLC and Eastex Telecom Investments, LLC.

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	$6,906,708
CAF ICC	$1,872,660
HCL	$6,929,672
Total	$15,709,040

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 $15,709,040, 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.[2]

[2] Although the Beneficiary received CAF BLS funds, the deployment obligation for carriers receiving CAF BLS is 2024. Therefore, the audit scope does not include any procedures related to modernized funds.

KPMG identified the following areas of focus for this performance audit:[3]

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, 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) [4] methodology to select 28 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, C&WF and certain general support 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; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

[3] If exceptions (instances of material non compliance 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.
[4] Monetary unit sampling (MUS) is a random-based sampling approach.

4. **Expenses**

   KPMG utilized a monetary unit sampling 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 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 accumulated depreciation.

5. **High Cost Program Filings**

   For the relevant High Cost program forms (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 the tax filing status for the Beneficiary as a tax-exempt cooperative who allocates resources and is exempt of any federal or state income taxes. Eastex is an organization formed under Section 501(c) (12) of the Internal Revenue Code and must receive 85 percent of its gross income from members to be tax exempt.

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 including leased property, tariffed services, and labor/benefit allocations. 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 every sample 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 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 are below:

HC2021LR009 F01: 47 CFR 54.903(a)(4) – Inaccurate Revenues

CONDITION

KPMG obtained and examined the Beneficiary's trial balance to determine whether the Beneficiary reported its revenues accurately for High Cost program purposes. KPMG reconciled the Subscriber Line Charge Revenue recorded in the trial balance to the amounts reported on the Form 509, noted a variance of $1,778, and factored in the uncollectibles amount of $5,401 resulting in the Beneficiary overstating SLC revenues on the Form 509 by $3,623.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper reporting of revenue amounts 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 underpayment of $3,623 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	N/A
CAF BLS	($3,623)
CAF ICC	N/A
Total	($3,623)

RECOMMENDATION

KPMG recommends that the Beneficiary enhance the preparation, review, and approval processes for reporting revenues 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

Beneficiary agrees with this finding and has taken corrective action to ensure that SLC revenues are accurately reported in future periods. For the month of December 2017, Beneficiary's input file contained an error that caused it to over-report SLC revenues to NECA by $3,621 resulting in a decrease in the Beneficiary's CAF-BLS revenues.

HC2021LR009-F02: 47 C.F.R. § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG obtained and examined the Beneficiary's G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. The Beneficiary used prior month-end balances instead of average monthly balances to compute its depreciation expense as prescribed by FCC Rules for the period of January 1, 2017 through December 31, 2017 and then retroactively booked adjusting entries to convert to average monthly balance, however neglected to book adjusting entries for March and December 2017.

The differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month period ended December 31, 2017, impacting the 2018-1 HCL Form and the Form 509 are as follows:

Account Description[5]	**For the 12 months ended December 31, 2017 $ Variance**
Account 3100 (2100): Accumulated Depreciation - General Support Assets	($604)
Account 3100 (2210): Accumulated Depreciation -Central Office Switching Equipment	($2,038)
Account 3100 (2230): Accumulated Depreciation -Central Office Transmission Equipment	$4,880
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	($8,966)
Account 6560: Depreciation and Amortization Expense	($6,727)

Note: Negative amounts noted above represent an overstatement of the account balance.

CAUSE

The Beneficiary did not have adequate processes in place to validate adjusting entries to the appropriate depreciation methodology occurred to have the total depreciation expense and accumulated depreciation align with FCC Rules.

[5] *See* 47 C.F.R. §§32.3100 and 32.6560 (2017).

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 $6,158 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$4,742
CAF BLS	$1,416
CAF ICC	N/A
Total	$6,158

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

> Beneficiary agrees with this finding and has taken corrective action to ensure that it utilizes average month balances to compute depreciation expenses.

CRITERIA

The below reflects the audit criteria relevant to the findings in this report:

Finding	Criteria	Description
#1	47 C.F.R. § 54.903(a)(4) (2017)	"Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the carrier is ultimately eligible based on its actual common line and consumer broadband-only loop cost and revenue data during the relevant period. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories."
#2	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."
#2	47 C.F.R. § 32.3100 (2017)	"Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses."
#2	47 C.F.R. § 32.6560 (2017)	Depreciation and amortization expenses. "Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565."

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 identified Depreciation Expense and Inaccurate Revenues findings.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	$4,742
CAF BLS	($2,207)
CAF ICC	$0
Total Impact	$2,535

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

** This concludes the audit report.**

Attachment F

HC2021LR026

Ballard Rural Telephone Cooperative
Audit Reference ID: HC2021LR026
(SAC No.: 260396)

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: 08/31/2022

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

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EXECUTIVE SUMMARY

August 31, 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 Ballard Rural Telephone Cooperative Study Area Code ("SAC") No. 260396 ("Ballard" or "Beneficiary") for disbursements, of $5,519,274 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 August 17, 2021 to August 31, 2022, and our results are as of August 31, 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 objectives. 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 $5,519,274, 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 as outlined in the Scope and Procedures sections of this report.

As our report further describes, KPMG identified four 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 $9,658 lower 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
Ballard/Beneficiary	Ballard Rural Telephone Cooperative
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

Audit Results	Monetary Impact Overpayment (Underpayment)[1]			
	HCL	CAF BLS	CAF ICC	Total
HC2021LR026-F01: 47 C.F.R. § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation – The Beneficiary did not calculate its depreciation expense using the average monthly asset balance.	($4,125)	($12,381)	$0	($16,506)
HC2021LR026-F02: 47 C.F.R. § 54.320(b) - Inaccurate Assets – The Beneficiary did not report the accurate amount for Accumulated Depreciation for High Cost program purposes.	$412	$2,617	$0	$3,029
HC2021LR026-F03: 47 C.F.R. § 51.917(d)(1)(vii) - Inaccurate Revenues: Switched Access Revenues– The Beneficiary did not report its Switched Access Revenues accurately for High Cost program purposes.	$0	$0	$4,261	$4,261
HC2021LR026-F04: 47 C.F.R. § 51.917(d)(1)(vii) - Inaccurate Revenues: Access Recovery Charge Revenues – The Beneficiary did not report its ARC Revenues accurately for High Cost program purposes.	$0	$0	($442)	($442)
Total Net Monetary Effect	($3,713)	($9,764)	$3,819	**($9,658)**

[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 for SAC 260396 for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

Regarding Findings #1, 3 and #4, USAC Management requires the Beneficiary to be placed on a Corrective Action Plan (C.A.P.) to address the Inaccurate Depreciation Calculation, Inaccurate Revenues: Switched Access Revenues and Inaccurate Revenues: Access Recovery Charge Revenues. As part of the C.A.P., the Beneficiary must report to High Cost Management, within 60 days of the date of the Notification Letter (to be issued by USAC's High Cost Division), how it plans to improve its documentation processes.

	HCL (A)	**BLS (B)**	**CAF ICC (C)**	**USAC Recovery Action (A) + (B) + (C)**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	($4,125)	($12,381)	N/A	($16,506)	N/A
Finding #2	$412	$2,617	N/A	$3,029	N/A
Finding #3	N/A	N/A	$4,261	$4,261	N/A
Finding #4	N/A	N/A	($442)	($442)	N/A
Mechanism Total	($3,713)	($9,764)	$3,819	($9,658)	N/A

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

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 $5,519,274, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Ballard Rural Telephone Cooperative (SAC No. 260396), the subject of this performance audit, is a member owned telephone cooperative located in La Center, Kentucky that serves over 4,100 customers in Kentucky. Ballard provides long distance telephone, internet and video services.

The Beneficiary is a member owned cooperative that provides local telephone service and to businesses and individual members within the boundaries established by the Kentucky Public Service Commission.

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	$2,483,154
CAF ICC	$497,460
HCL	$2,538,660
Total	$5,519,274

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, subpart I Allocation of Costs), the separation between interstate and intrastate operations (Part 36 Jurisdictional Separations Procedures) and the separation between access and non-access elements (Part 69 Access Charges). 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 $5,519,274 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.[2]

KPMG identified the following areas of focus for this performance audit:[3]

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, inputted 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, 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)[4] methodology to select 29 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. 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

[2] Although the Beneficiary received CAF BLS funds, the deployment obligation due date for carriers receiving CAF BLS is 2024. Therefore, the audit scope does not include any procedures related to modernized funds.

[3] If exceptions (instances of material non compliance 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.

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

costs; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

4. **Expenses**

   KPMG utilized a monetary unit sampling methodology with additional judgmental selections to select 30 expense samples including payroll from material operating expense accounts identified in the relevant High Cost program forms. We agreed selected expense amounts to the related 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 had accurately reported depreciation expenses and accumulated depreciation.

5. **High Cost Program Filings**

   For the relevant High Cost program forms (HCL, CAF BLS, and CAF ICC), the 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 was obtained to resolve material 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 confirming 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. Additionally, we judgmentally selected a specific line maintained by the Beneficiary to perform a virtual route distance inspection.

8. **Overheads**

   KPMG performed a walkthrough of the Beneficiary's 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 tax filing status for the Beneficiary is a tax-exempt co-operative. KPMG obtained and reviewed the relevant tax documentation and noted that the Beneficiary is not required to pay federal or state income taxes due to its filing status.

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

Ballard has 33.5% ownership interest in the Kentucky RSA Partnership No. 1, a cellular telephone company. The remaining 66.5% majority ownership interest is held by Verizon Wireless, doing business as Cellco Partnership. We reviewed available audited financial statement reports and Ballard's general ledger activities for the audit scope year to confirm that there are no active services or participation rendered to the joint venture. Therefore, no affiliate transactions or cost allocations were noted during the audit scope period for our analysis/testing.

The related revenue/profit recognized by Kentucky RSA Partnership No. 1 is distributed based on the confirmed ownership interest held by Ballard and Cellco Partnership. The related operating costs of the Kentucky RSA Partnership No. 1 is offset against the recognized revenue in direct proportion to each entity's ownership stake.

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 its audit, KPMG identified four findings and details the findings, including the condition, cause, effect, recommendation and Beneficiary Response are below:

HC2021LR026-F01: 47 C.F.R. § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG inspected the Beneficiary's 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 monthly balances to compute depreciation expense, instead of average monthly balances, as prescribed by FCC Rules for the period of January 1, 2017 through December 31, 2017. The differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month period ended December 31, 2017 are as follows:

Account Description[5]	Variance for the 12 months ended December 31, 2017
Account 3100 (2110): Accumulated Depreciation – General Support Assets	$59,613
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$5,302
Account 3100 (2410): Accumulated Depreciation – Cable and Wire Facilities	$2,380
Account 6560 (2110): Depreciation and Amortization Expense – General Support Assets	$59,613
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$5,302
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$2,380

CAUSE

The Beneficiary's did not have adequate process and procedures in place that govern preparation, review and approval of the calculation of depreciation to ensure compliance with FCC Rules and Orders. As a result, the Beneficiary calculated their monthly depreciation using beginning monthly balance as opposed to average monthly balance.

[5] *See* 47 C.F.R. §§ 32.3100 and 32.6560 (2017).

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 High Cost forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an underpayment of $16,506 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	($4,125)
CAF BLS	($12,381)
CAF ICC	N/A
Total	($16,506)

RECOMMENDATION

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

Beneficiary discovered the issue in 2019 and has since implemented new calculations to correctly compute depreciation expense by utilizing the beginning and ending monthly asset averages.

HC2021LR026-F02: 47 C.F.R. § 54.320(b) - Inaccurate Assets

CONDITION

KPMG performed a reconciliation of the Beneficiary's Trial Balance and Cost Study to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. A difference was noted as a cost study adjustment was not included to record an additional $5,395 to Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities to report on the High Cost program forms for the twelve-month period ended December 31, 2017, resulting in the over statement of the net book value of assets.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure the proper retention of records to demonstrate that assets were accurately recorded and reported for High Cost program purposes.

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 High Cost forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an overpayment of $3,029 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$412
CAF BLS	$2,617
CAF ICC	N/A
Total	$3,029

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 the correct amounts are reported for all accounts. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/ common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Beneficiary has since contracted with new consultant (Moss Adams), where there are significant process controls in place to safeguard against issues such as this in the future.

HC2021LR026-F03: 47 CFR § 51.917(d)(1)(vii) - Inaccurate Revenues: Switched Access Revenues

CONDITION

KPMG examined the Beneficiary's G/L to determine whether the Beneficiary reported its Switched Access revenues accurately for High Cost program purposes. The Beneficiary understated its 2017 Switched Access revenues as reported on its 2018 CAF ICC Form by $5,812 compared to the Switched Access revenue recorded in the G/L.[6]

CAUSE

The Beneficiary’s process and procedures governing the preparation and review of the CAF ICC Form did not identify the submission of erroneous Switched Access revenue information included in the Report.

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 High Cost forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an overpayment of $4,261 as summarized below:

[6] *See* 47 C.F.R. § 51.917(d)(1)(vii) in the criteria section of the report.

Support Type	Monetary Effect & Recommended Recovery
HCL	N/A
CAF BLS	N/A
CAF ICC	$4,261
Total	$4,261

RECOMMENDATION

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

The Beneficiary should enhance controls and procedures related to preparation, review and approvals related to the calculation, recording and reporting of revenues. 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

Since the timing of this occurrence, Beneficiary has moved process internally and preparers of entry now reconcile entry on a monthly basis to ensure accuracy.

HC2021LR026-F04: 47 CFR § 51.917(d)(1)(vii) - Inaccurate Revenues: Access Recovery Charge Revenues

CONDITION

KPMG examined the Beneficiary's G/L to determine whether the Beneficiary reported its ARC revenues accurately for High Cost program purposes. The Beneficiary overstated its 2017 ARC true-up revenues as reported on their Program Year 2018 CAF ICC Form by $442 compared to the ARC revenue recorded in the G/L.

CAUSE

The Beneficiary's process and procedures governing the preparation and review of the CAF ICC Form did not identify the submission of erroneous ARC revenue information posted in its financial G/L.

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 High Cost forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an under-payment of $454 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	N/A
CAF BLS	N/A
CAF ICC	($442)
Total	($442)

RECOMMENDATION

The Beneficiary should enhance controls and procedures related to preparation, review and approvals related to the calculation, recording and reporting of revenues. 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

Since the timing of this occurrence, Beneficiary has moved process internally and preparers of entry now reconcile entry on a monthly basis to ensure accuracy.

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 (2017)	(a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense—telecommunications plant in service. (Note also Account 3300, Accumulated depreciation—nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses.
#1	47 C.F.R § 32.6560 (2017)	Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565.
#2	47 C.F.R § 54.320(b) (2017)	“All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.”
#3	47 C.F.R § 51.917(d)(ii)(a)(b) (2017)	“Beginning July 1, 2013, a Rate-of-Return Carrier’s eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in §51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in §51.909”

Finding	Criteria	Description
#4	47 C.F.R § 51.917(d)(1)(vii) (2017)	“If a Rate-of-Return Carrier recovers any costs or revenues that are already being recovered as Eligible Recovery through Access Recovery Charges or the Connect America Fund from another source, that carrier’s ability to recover reduced switched access revenue from Access Recovery Charges or the Connect America Fund shall be reduced to the extent it receives duplicative recovery. Any duplicative recovery shall be reflected as a reduction to a carrier’s Eligible Recovery calculated pursuant to §51.917(d). A Rate-of-Return Carrier seeking revenue recovery must annually certify as part of its tariff filings to the Commission and to the relevant state commission that the carrier is not seeking duplicative recovery in the state jurisdiction for any Eligible Recovery subject to the recovery mechanism.”

CONCLUSION

As discussed in detail above, in our evaluation of the Beneficiary's compliance with the applicable requirements of the FCC Rules relevant to the disbursements made from the High Cost program during the twelve-month period ended December 31, 2019 identified the following findings: inaccurate depreciation calculation, inaccurate assets and inaccurate revenues.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	($3,713)
CAF BLS	($9,764)
CAF ICC	$3,819
Total Impact	($9,658)

KPMG recommends that the Beneficiary improves its processes for ensuring depreciation calculations are performed accurately and in compliance with FCC Rules and Orders; validating cost study adjustments are appropriately applied and the accurate recording and reporting of revenues.

** This concludes the audit report.**