Universal Service
Administrative Co.

High Cost and Low Income Committee Meeting

Audit Reports Briefing Book

Thursday, April 20, 2023

Available For Public Use

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: January 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Hood Canal Telephone Company **Attachment A**	1	• No significant findings.	$1,642,699	$1,169	$1,169	N
Matanuska Telephone Association, Inc. **Attachment B**	1	• No significant findings.	$1,776,282	$27,686	$27,686	N
Total	**2**		**$3,418,981**	**$28,855**	**$28,855**	

Attachment A

HC2021LR032

Hood Canal Telephone Company Audit Reference ID: HC2021LR032 (SAC No.: 522419)

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: 12/14/2022

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

December 14, 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 objective relative to Hood Canal Telephone Company Study Area Code ("SAC") No. 522419 ("Hood Canal" or "Beneficiary") for disbursements, of $1,642,699 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 September 17, 2021, to December 14, 2022, and our results are as of December 14, 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 $1,642,699, 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 one finding as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost program for the twelve-month period ended December 31, 2019 were $1,169 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.

In addition, we also noted a finding that is not significant within the context of the audit objective but warrants the attention of those charged with governance. We reported this finding to the Beneficiary's management in a separate letter dated December 14, 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
CLEC	Competitive Local Exchange Carrier
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
Hood Canal	Hood Canal Telephone Company
ICLS	Interstate Common Line Support
ILEC	Incumbent Local Exchange Carrier
MUS	Monetary Unit Sampling
NECA	National Exchange Carrier Association
R.J.B.	R.J.B. Telecommunications Corporation
SAC	Study Area Code
SLC	Subscriber Line Charge
Southshore	Southshore Enterprises, LLC
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	Total
HC2021LR032-F01: 47 CFR Part 32.2000(g)(2)(iii)-Inaccurate Depreciation Calculation - The Beneficiary recorded an inaccurate Deprecation Expense in its G/L for one month and did not perform appropriate cost study adjustments to ensure the Depreciation Expense was reported accurately.	$453	$716	$1,169
Total Net Monetary Effect	**$453**	**$716**	**$1,169**

[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 522419, for the High Cost Program support in the amount noted in the chart below.

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)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$453	$716	$1,169	N/A
Mechanism Total	**$453**	**$716**	**$1,169**	N/A

BACKGROUND, OBJECTIVE, 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 $1,642,699, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Hood Canal Telephone Company (SAC No. 522419), the subject of this performance audit, is an ILEC located in Union, Washington and serves over 700 customers in the state of Washington. Hood Canal provides broadband, voice, and cable television services.

The Beneficiary is a wholly-owned subsidiary of R.J.B. Telecommunications Corporation (R.J.B.), a Subchapter S Corporation. R.J.B. also wholly owns Southshore Enterprises, LLC, another subsidiary. Southshore Enterprises, LLC (Southshore) is a CLEC and provides cable television services to its customers and was not included in the scope of our performance audit.

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	$1,109,311
CAF ICC	$204,648
HCL	$328,740
Total	**$1,642,699**

Source: USAC

In addition to the above, the Beneficiary also received $15,602 in ICLS funds which represent a true-up of prior year funding, and as such are excluded from 2019 audited disbursements.

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 period 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.

OBJECTIVE

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 $1,642,699, 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 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**

   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

[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.

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 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 Beneficiary is a S-Corporation for tax filing purposes, noting that for 2017, the Beneficiary filed a Corporate Tax Return – Form 1120S for the legal entity. KPMG obtained and reviewed the federal and state tax filings for 2017, noting the state of Washington does not impose corporate income tax. 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 that included leased assets that occurred during 2017. We selected eight affiliate transactions for testing. The selected transactions included personal and real properties that were leased by Hood Canal from Southshore. 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 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 other cost study adjustments utilized in the calculation of the common line revenue requirement.

RESULTS

KPMG's performance audit results include a finding, recommendation and Beneficiary response regarding the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of the finding 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 finding or recommendation noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

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

Finding #1 HC2021LR032-F01: 47 CFR Part 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG obtained Hood Canal's 2017 G/L and assessed the accuracy of material Assets and Depreciation Expense balances. KPMG noted that, due to an error in the calculation, Depreciation Expense for the month of September was not recorded accurately in the 2017 G/L, thus overstating the expense.[5] The Beneficiary noticed the error during its review of Depreciation schedule in January 2018 and corrected it in the G/L. However, the Beneficiary did not perform necessary cost adjustments to remedy for the error for the 2017 data reported in the High Cost Program forms.[6]

The differences noted in 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	Variance for the 12 months ended December 31, 2017 $ Variance
Account 3100 (2230): Accumulated Depreciation -Central Office Transmission Equipment	$1,611
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$1,611

CAUSE

The Beneficiary did not have adequate processes in place to validate adjusting entries were utilized for the reporting of Depreciation Expense amounts 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

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

respective account or line items on the HC forms relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019. This resulted in an over-payment of $1,169 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$453
CAF BLS	$716
CAF ICC	N/A
Total	**$1,169**

RECOMMENDATION

KPMG recommends the USAC Program recover the $1,169 as noted in the Effect Section above.

KPMG recommends the Beneficiary enhance controls and procedures related to preparation, review, approvals associated with the calculation, recording, and reporting of Depreciation Expense. 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

Hood Canal agrees with this finding and has taken appropriate action in the future to correct this error.

The depreciation error was due to an asset that was booked to Central office transmission equipment by error. The error was corrected and the asset was re-classified to its proper account. However, the depreciation error was not found until January 2018 and it was corrected at this time.

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."

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 KPMG identified one finding related to Inaccurate Depreciation.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	$453
CAF BLS	$716
CAF ICC	N/A
Total Impact	**$1,169**

KPMG recommends that the Beneficiary improve controls related to preparation, review, and approvals related to the calculation, recording, and reporting of Depreciation Expense as prescribed by FCC Rules.

** This concludes the audit report.**

Attachment B

HC2021LR005

Matanuska Telephone Association, Inc.

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

USAC Audit No. HC2021LR005

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EXECUTIVE SUMMARY

October 20, 2022

Larry Snipes
Manager Regulatory Affairs
Matanuska Telephone Association, Inc.
1740 S. Chugach Street
Palmer, AK 99645

Dear Larry Snipes:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Matanuska Telephone Association, Inc. (Beneficiary), study area code 613015 disbursements for the year ended December 31, 2019, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 51 and 54, as well as other program requirements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

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

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

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

Sincerely,

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

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

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect and Recommended Recovery
Finding: 47 C.F.R. § 51.917(D)(V) – Inaccurate Interstate Switched Access Service Revenues - The Beneficiary reported inaccurate Interstate Switched Access Service Revenue for program years 2016-2017 and 2017-2018.	**$27,686**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 613015, for the High Cost Program support in the amount noted in the chart below.

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.

	CAF ICC	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$27,686	$27,686	N/A
Mechanism Total	$27,686	$27,686	N/A

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:

	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2016-2019	2019	$1,776,282

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

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

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

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

DETAILED AUDIT FINDING

FINDING: 47 C.F.R. § 51.917(d)(v) – Inaccurate Interstate Switched Access Service Revenues

CONDITION

AAD obtained and examined the Beneficiary's Tariff Review Plan (TRP) and general ledger to determine whether the Beneficiary reported accurate Interstate Switched Access Service Revenues (Interstate Revenues) for High Cost program purposes for Program Years 2016 – 2017 and 2017 - 2018. Although the total Interstate Revenues identified on the Beneficiary's TRP agreed to the revenues reported by the Beneficiary, the Beneficiary's general ledger did not agree to the TRP nor to the revenues reported by the Beneficiary. The differences are summarized below:

Program Years	Per Tariff Review Plan and Reported to USAC (A)	Per the General Ledger (B)	Difference Over / (Under) (C) = (B) – (A)
2016 - 2017	$669,043	$724,462	($55,419)
2017 - 2018	$596,918	$596,875	$43
		Total	**($55,376)**

Because the Beneficiary's supporting documentation (the general ledger) did not agree to the amount that was reported, AAD concludes that the Beneficiary did not report accurate Interstate Revenue. Per the FCC Rules, the true-up revenues from an access service are equal to the projected demand minus the actual realized demand for that service times the default transition rate for that service.[1] Thus, AAD used the general ledger as the basis for the actual realized demand for the Interstate revenue. The Beneficiary must report accurate Interstate Revenue 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 Interstate Revenue for High Cost purposes. For Program Year 2016 – 2017, the Beneficiary informed AAD it did not include the December 31, 2016 accrual entry from the 2016-2017 true-up amount.[2] For Program Year 2017- 2018, the Beneficiary informed AAD that the reason for the difference is that it included some ARC Revenue when calculating the Interstate Revenue.[3]

EFFECT

The monetary effect of this finding is $27,686. AAD calculated the monetary effect by adding the understated amount to the total interstate revenue amount reported by the Beneficiary in its CAF ICC filing for the respective periods. AAD summarized the results, as follows:

[1] *See* 47 CFR § 51.917(b)(6)(2016).
[2] *See* Beneficiary response to the audit inquiry #7 (received Dec. 22, 2021).
[3] *See Id*.

Fund Type	Monetary Effect and Recommended Recovery
CAF ICC	$27,686

RECOMMENDATION

AAD recommends that USAC management seek recovery of $27,686.

The Beneficiary must ensure it has an adequate system to report accurate data for High Cost program purposes to demonstrate compliance with the FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary collects and retains documentation, and establish additional controls to ensure final revenues reported in its CAF ICC filings reconcile to the general ledger. 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

Matanuska Telecom Association agrees with the finding of the audit.

CRITERIA

47 C.F.R § 51.917(d)(v)(2016):

> (v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year.

47 C.F.R § 51.917(b)(6)(2016):

> (6) True-up Revenues. True-up Revenues from an access service are equal to (projected demand minus actual realized demand for that service) times the default transition rate for that service specified by §51.909. True-up Revenues from a non-access service are equal to (projected demand minus actual realized net demand for that service) times the default transition rate for that service specified by §20.11(b) of this chapter or §51.705. Realized demand is the demand for which payment has been received, or has been made, as appropriate, by the time the true-up is made.

**This concludes the report. **

Summary of High Cost Support Mechanism Beneficiary Audit Report Released: February 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
BPS Telephone Company **Attachment C**	0	• Not applicable.	$2,141,881	$0	$0	N/A
Total	**0**		**$2,141,881**	**$0**	**$0**	

Attachment C

HC2021LR020

BPS Telephone Company
Audit Reference ID: HC2021LR020
(SAC No.: 420463)

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: 1/10/2023

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

January 10, 2023

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 objective relative to BPS Telephone Company Study Area Code ("SAC") No. 420463 ("BPS" or "Beneficiary") for disbursements, of $2,141,881 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 September 16, 2021 to January 10, 2023, and our results are as of January 10, 2023.

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 $2,141,881, 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.

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

AUDIT RESULTS AND RECOVERY ACTION

KPMG’s performance audit procedures identified no findings.

BACKGROUND, OBJECTIVE, 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 $2,141,881, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

BPS Telephone Company (SAC No. 420463), the subject of this performance audit, is an ILEC located in Bernie, Missouri and serves over 1,500 customers in the state of Missouri, providing broadband and voice services. BPS is wholly owned by FDF Communications, Inc., a holding entity. FDF Communications also wholly owns BPS Wireless Ventures, a separate entity. FDF Communications has been established as a corporation in the state of Missouri and provides voice and data to its customers. BPS Wireless Ventures is a Missouri Corporation; however, it does not have any operations at this time.

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	$926,754
CAF ICC	$450,474
HCL	$764,653
Total	**$2,141,881**

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 period 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.

OBJECTIVE

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 $2,141,881, 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 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

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

[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.

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 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 is taxable C-Corporation and the Beneficiary files its federal income tax return as part of a consolidated filling group under FDF Communications, Beneficiary's parent company. We obtained and reviewed the federal and state tax filings, forms 1120, 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 that included Data Transmission and Leased Assets that occurred during 2017. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the 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 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

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, KPMG identified no findings.

** This concludes the audit report.**

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: March 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Atlantic Telephone Membership Corporation **Attachment D**	1	• Not significant.	$6,896,904	($39,916)	$0	No
Beaver Creek Cooperative **Attachment E**	1	• Not significant.	$1,451,586	($474)	$0	No
Eastern Slope Rural Telephone **Attachment F**	0	• Not applicable.	$438,600	$0	$0	N/A
Garden Valley Telephone Co. **Attachment G**	1	• Not significant.	$1,127,844	($6,106)	$0	No
Twin Valley Telephone, Inc. **Attachment H**	1	• Not significant.	$742,584	($1,730)	$0	No
Total	**4**		**$10,657,518**	**($48,226)**	**$0**	

Attachment D

HC2021LR003

Available For Public Use

Atlantic Telephone Membership Corporation Audit Reference ID: HC2021LR003 (SAC No.: 230468)

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: 02/08/2023

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

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KPMG

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

EXECUTIVE SUMMARY

February 08, 2023

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 Atlantic Telephone Membership Corporation's Study Area Code ("SAC") No. 230468 ("Atlantic", "ATMC" or "Beneficiary") for disbursements, of $6,896,904 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 September 3, 2021 to February 08, 2023, and our results are as of February 08, 2023.

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). and American Institute of Certified Public Accountants Consulting Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 $6,896,904, 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 one finding as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost Program for the twelve-month period ended December 31, 2019 were $39,916 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 February 08, 2023.

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
Atlantic/ATMC	Atlantic Telephone Membership Corporation
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
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ILEC	Incumbent Local Exchange Carrier
MUS	Monetary Unit Sampling
NECA	National Exchange Carrier Association
SAC	Study Area Code
SLC	Subscriber Line Charge
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]		
	CAF BLS	**CAF ICC**	**Total**
HC2021LR003-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.	($39,916)	$0	($39,916)
Total Net Monetary Effect	($39,916)	$0	($39,916)

[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 230468 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.

	HCL (A)	**CAF BLS (B)**	**CAF ICC (C)**	**USAC Recovery Action (A) + (B) + (C)**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	$0	($39,916)	$0	($39,916)	N/A
Mechanism Total	$0	($39,916)	$0	($39,916)	

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.
2. CAF ICC: CAF ICC support is available to ILECs to obtain eligible recovery that is not recovered 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 to the extent that their consumer broadband revenue requirements exceed their imputed consumer broadband revenues. 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 $6,896,904, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Atlantic (SAC No. 230468), the subject of this performance audit, is a rural ILEC located in Shallotte, NC that serves over 20,000 customers in North Carolina. Atlantic provides telecommunications, cable television and security services.

The Beneficiary has two wholly owned subsidiaries, Atlantic Seawinds Communications LLC and Atlantic Telecom Multimedia Consolidated LLC. The Beneficiary also has two divisions: Telephone Operations and Cable Television Operations, however each division maintains accounting records separately.

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	$4,490,532
CAF ICC	$2,406,372
Total	$6,896,904

Source: USAC

In addition to the above, the Beneficiary also received $87,420 in ICLS funds which represent a true-up of prior year funding, and as such are excluded from 2019 audited disbursements.

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 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 $6,896,904, 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 then performed reconciliation to the G/L, 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. Additionally, we also verified the physical existence of selected assets.

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[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 monetary unit sampling methodology to select 29 expense and payroll samples from material operating expense accounts identified in the relevant High Cost Program forms. We agreed expense amounts to supporting documentation such as invoices and payroll data. We also verified that each selected sample item were coded to the proper Part 32 accounts and categorized accurately in terms of expense type and the nature of costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary calculated and reported accurate depreciation expenses and accumulated depreciation.

5. **High Cost Program Filings**

   For the relevant High Cost program forms (CAF BLS, CAF ICC), we assessed completeness of reported accounts by reconciling them to the audited financial statements. Irreconcilable items were discussed with the Beneficiary and additional support was obtained to resolve noted 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, on a sample basis. We assessed whether COE amounts reconciled to the cost studies by reviewing power and common line allocations, and reviewing Part 36 inputs.

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 recorded C&WF amounts reconciled to the cost studies. Additionally, we also performed a route distance inspection virtually to verify accuracy of the selected line.

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 confirmed that Atlantic is treated as a political subdivision by the State of North Carolina and is therefore not subject to state and federal income tax laws and is not required to file annual income tax reports.

10. **Part 64 Cost Allocations**

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

11. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that occurred during 2017. For both Atlantic Seawinds Communications and Atlantic Telecom Multimedia Consolidated, these included Fiber Lease, Management Fees and Billing & Collections transactions. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the 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 alignment with 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 includes the finding, recommendation and Beneficiary's written response regarding the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such finding 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 finding or recommendation noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

KPMG identified one finding and details the finding, including the condition, cause, effect, recommendation and Beneficiary Response are below:

HC2021LR003-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 assess whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. We confirmed that the Beneficiary used beginning monthly balances to compute its depreciation expense instead of using 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, impacting the Form 509 are as follows:

Account Description[5]	Variance for the 12 months ended December 31, 2017
Account 3100 (2110): Accumulated Depreciation - General Support Assets	$31,796
Account 3100 (2210): Accumulated Depreciation – Central Office Switching Equipment	$55,411
Account 3100 (2230): Accumulated Depreciation -Central Office Transmission Equipment	$18,920
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$85,577
Account 6560 (2110): Depreciation and Amortization Expense – General Support Assets	$31,796
Account 6560 (2210): Depreciation and Amortization Expense – Central Office Switching Equipment	$55,411
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$18,920
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$85,577

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

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.

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 under-payment of $39,916 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($39,916)
CAF ICC	N/A
Total	**($39,916)**

RECOMMENDATION

KPMG recommends that the Beneficiary enhance the preparation, review and approval processes and internal controls 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

ATMC concurs with the finding, the method used to calculate depreciation for the period noted was due to accounting system limitations. ATMC has since updated their accounting system to one that has additional options for calculation methods and ATMC intends to make the necessary revisions to its depreciation calculation methods to align with Federal Communications Commission rules and regulations.

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. "Class B telephone companies shall use this account for expenses of the type and character required of Class A companies 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 the FCC Rules relevant to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019 identified a Depreciation Expense finding.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
CAF BLS	($39,916)
CAF ICC	$0
Total Impact	**($39,916)**

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

This concludes the audit report.

Attachment E

HC2021LR030

Available For Public Use

Beaver Creek Cooperative
Audit Reference ID: HC2021LR030
(SAC No.: 532359)

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: 2/6/2023

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

February 6, 2023

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 Beaver Creek Cooperative Study Area Code ("SAC") No. 532359 ("Beaver Creek" or "Beneficiary") for disbursements, of $1,451,586, 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 September 1, 2021 to February 6, 2023and our results are as of February 6, 2023.

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 $1,451,586, 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 one finding as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost program for the twelve-month period ended December 31, 2019 were $474 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 February 6, 2023.

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
Beaver Creek	Beaver Creek 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
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]		
	CAF BLS	CAF ICC	Total
<u>HC2021LR030-F01: 47 C.F.R. 54.903(a)(4)- Inaccurate Revenues</u> – The Beneficiary was unable to reconcile the reported revenues to internal records and did not make timely adjustments to the reported revenues as prescribed by FCC Rules. These revenues were not imputed.	($237)	($237)	($474)
Total Net Monetary Effect	**($237)**	**($237)**	**($474)**

[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 532359, 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.

	CAF BLS (A)	CAF ICC (B)	USAC Recovery Action (A) + (B)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	($237)	($237)	($474)	N/A
Mechanism Total	($237)	($237)	($474)	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 $1,451,586, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Beaver Creek Cooperative (SAC No. 532359), the subject of this performance audit, is an ILEC located in Oregon City, Oregon and serves over 3,000 customers in the state of Oregon. Beaver Creek provides broadband, voice, and cable TV services.

Beaver Creek is a member owned cooperative and it is not affiliated with any other entities.

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	$971,400
CAF ICC	$480,186
Total	**$1,451,586**

Source: USAC

In addition to the above, the Beneficiary also received $12,584 in ICLS funds which represent a true-up of prior year funding, and as such are excluded from 2019 audited disbursements.

- 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 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.

OBJECTIVE

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 $1,451,586, 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 24 asset samples from material accounts identified in the relevant High Cost Program forms. We made asset selections from CPR details, and material accounts included COE, 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.

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[3] 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 the finding in the 'Results' section of the report.

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

10. **Part 64 Cost Allocations**

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

11. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that included Data Transmission that occurred during 2017. We selected seven affiliate transactions for testing. The selected transactions included broadband, voice, and cable TV services that were provided by Beaver Creek to the affiliate entities internally. 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. We reviewed the business purpose of each of the seven transactions selected for testing to determine whether they 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 finding, recommendation and Beneficiary response regarding the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of the finding 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 finding or recommendation noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

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

HC2021LR030-F01: 47 C.F.R. 54.903(a)(4) & 47 C.F.R. 51.917(d)(1)(vii) – Inaccurate Revenues

CONDITION

KPMG obtained and examined the G/L, and Form 509, and the NECA 24-Month View data to determine whether the Beneficiary reported SLC revenue balances accurately for High Cost program purposes. The Beneficiary's annual SLC revenue was overstated by $237 on the Form 509 compared to the G/L. The Beneficiary did not impute SLC revenues.

In addition, KPMG obtained and examined the G/L and 2017 CAF ICC Form to determine whether the Beneficiary reported ARC revenues accurately for High Cost Program purposes. The Beneficiary overstated ARC true-up revenues by $237 on the Program Year 2017 CAF ICC Form compared to the G/L. The Beneficiary did not impute ARC revenues. [5]

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 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 $474 as summarized below:

Support Type	Monetary Effect and Recommended Recovery
CAF BLS	($237)
CAF ICC	($237)
Total	**($474)**

[5] See 47 C.F.R. § 54.903(a)(4) and 47 C.F.R. § 51.917(d)(1)(vii) in the criteria section of the report.

RECOMMENDATION

KPMG recommends that the Beneficiary enhance controls and procedures over the 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

We agree with the findings. In the future we will be sure to reconcile all reported figures back to the supporting documentation.

CRITERIA

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."
#1	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, KPMG identified one finding.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
CAF BLS	($237)
CAF ICC	($237)
Total Impact	**($474)**

KPMG recommends that the Beneficiary improve controls related to preparation, review, and approvals related to the calculation, recording, and reporting of revenues as prescribed by FCC Rules.

** This concludes the audit report.**

Attachment F

HC2021LR018

Eastern Slope Rural Telephone
Audit Reference ID: HC2021LR018
(SAC No.: *462186*)

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: 2/23/2023

KPMG LLP
1021 East Cary Suite 200
Richmond, VA 23219

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

EXECUTIVE SUMMARY

February 23, 2023

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 objective relative to Eastern Slope Rural Telephone, Study Area Code ("SAC") No. 462186 ("Eastern Slope" or "Beneficiary") for disbursements, of $438,600[1] made from the Universal Service High Cost Program for legacy funds during the twelve-month period ended December 31, 2019. Our work was performed during the period from September 20, 2021 to February 23, 2023, and our results are as of February 23, 2023.

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 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 $438,600, made from the High Cost Program for legacy funds during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility

[1] This amount is Connect America Fund Intercarrier compensation (CAF ICC) funds only. Based on 2016 Rate-of-Return Reform Order, beneficiaries that are FCC authorized to receive Alternative Connect America Cost Model (ACAM) II funds must forfeit their Legacy funds (i.e., High Cost Loop (HCL) and Connect America Fund Broadband Loop Support (CAF BLS)). The Beneficiary converted to ACAM II in 2019, thus any HCL and CAF BLS funds received were converted to ACAM II funds and were not in scope for this audit.

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 significant 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 a finding that is not significant within the context of the audit objective but warrants the attention of those charged with governance. We reported this finding to the Beneficiary's management in a separate letter dated February 23, 2023.

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
ACAM	Alternative Connect America Cost Model
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
Eastern Slope	Eastern Slope Rural Telephone
FCC	Federal Communications Commission
G/L	General Ledger
HCL	High Cost Loop
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

BACKGROUND, OBJECTIVE, 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 obtain eligible recovery that is not recovered 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 to the extent that their consumer broadband revenue requirements exceed their imputed consumer broadband revenues. 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 $438,600, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Eastern Slope Rural Telephone (SAC No. 462186), the subject of this performance audit, is a rural ILEC in Hugo, Colorado that serves over 4,000 customers in Colorado. Eastern Slope provides residential voice packages and internet as well as fiber optic internet and voice packages to businesses.

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[2]
CAF ICC	$438,600
Total	**$438,600**

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 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 revenues.

OBJECTIVE

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 $438,600, made from the High Cost program for legacy funds 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 for legacy funds during the twelve-month period ended December 31, 2019.

[2] This amount is Connect America Fund Intercarrier compensation (CAF ICC) funds only. Based on 2016 Rate-of-Return Reform Order, beneficiaries that are FCC authorized to receive Alternative Connect America Cost Model (ACAM) II funds must forfeit their Legacy funds (i.e., High Cost Loop (HCL) and Connect America Fund Broadband Loop Support (CAF BLS)). The Beneficiary converted to ACAM II in 2019, thus any HCL and CAF BLS funds received were converted to ACAM II funds and were not in scope for this audit.

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

1. High Cost Program Eligibility filings
2. Revenues, Subscriber Listings and Billing Records

PROCEDURES

1. High Cost Program Eligibility filings

For the relevant High Cost Program form (CAF ICC), completeness of reported accounts were assessed via reconciliations to the G/L. Irreconcilable items were discussed with the Beneficiary and support obtained to resolve differences.

2. 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.

[3] 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.

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 for legacy funds 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 applicable 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 G

HC2021LR012

Garden Valley Telephone Company
Audit Reference ID: HC2021LR012
(SAC No.: 361395)

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: February 13, 2023

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

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Richmond, VA 23219-4023

EXECUTIVE SUMMARY

February 13, 2023

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 Garden Valley Telephone Company, Study Area Code ("SAC") No. 361395 ("Garden Valley" or "Beneficiary") for disbursements, of $1,127,844[1] 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 September 20, 2021 to February 13, 2023, and our results are as of February 13, 2023.

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 $1,127,844, 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.

[1] This amount is Connect America Fund Intercarrier compensation (CAF ICC) funds only. Based on 2016 Rate-of-Return Reform Order, beneficiaries that are FCC authorized to receive Alterative Connect America Cost Model (ACAM) II funds must forfeit their Legacy funds (i.e., High Cost Loop (HCL) and Connect America Fund Broadband Loop Support (CAF BLS)). The Beneficiary converted to ACAM II in 2019, thus any HCL and CAF BLS funds received were converted to ACAM II funds and were not in scope for this audit.

As our report further describes, KPMG identified one finding as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost Program for the twelve-month period ended December 31, 2019 were $6,106 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
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
Garden Valley	Garden Valley Telephone Company
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
ICLS	Interstate Common Line Support
ILEC	Incumbent Local Exchange Carrier
MUS	Monetary Unit Sampling
NECA	National Exchange Carrier Association
SAC	Study Area Code
SLC	Subscriber Line Charge
SVS	Safety Valve Support
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[2]
<u>HC2021LR012-F01: 47 C.F.R. § 51.917(d)(1)(vii) – Inaccurate Revenues</u> – The Beneficiary overstated ARC revenues on the CAF ICC form compared to the G/L.	($6,106)
Total Net Monetary Effect	**($6,106)**

[2] 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 361395, 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.

	CAF ICC	**USAC Recovery Action**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	($6,106)	($6,106)	N/A
Mechanism Total	($6,106)	($6,106)	

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, OBJECTIVE, 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 obtain eligible recovery that is not recovered 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 to the extent that their consumer broadband revenue requirements exceed their imputed consumer broadband revenues. 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 $1,127,844, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Garden Valley (SAC No. 361395), the subject of this performance audit, is a rural ILEC in Erskine, Minnesota that serves around 10,000 customers in Minnesota. Garden Valley provides residential internet and voice packages as well as fiber optic internet and voice packages to businesses.

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[3]
CAF ICC	$1,127,844
Total	**$1,127,844**

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 CAF ICC Form, based on program year 2017 data

In the above referenced form, the High Cost program beneficiaries provide totals of certain pre-designated G/L Accounts including revenues.

OBJECTIVE

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 $1,127,844, made from the High Cost Program during the twelve-month period ended December 31, 2019.

SCOPE

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

KPMG identified the following areas of focus for this performance audit:[4]

1. Revenues, Subscriber Listings and Billing Records
2. Revenue Requirement

---

[3] This amount is Connect America Fund Intercarrier compensation (CAF ICC) funds only. Based on 2016 Rate-of-Return Reform Order, beneficiaries that are FCC authorized to receive Alterative Connect America Cost Model (ACAM) II funds must forfeit their Legacy funds (i.e., High Cost Loop (HCL) and Connect America Fund Broadband Loop Support (CAF BLS)). The Beneficiary converted to ACAM II in 2019, thus any HCL and CAF BLS funds received were converted to ACAM II funds and were not in scope for this audit.

[4] 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.

PROCEDURES

1. **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.

2. **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 the finding, recommendation and Beneficiary response regarding the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such finding 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 finding or recommendation noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

Through its audit, KPMG identified one finding and details the finding, including the condition, cause, effect, recommendation and Beneficiary Response are below:

HC2021LR012-F01: 47 C.F.R. § 51.917(d)(1)(vii)– Inaccurate Revenues

CONDITION

KPMG obtained and examined the G/L Revenue and the 2017 CAF ICC Form data to determine whether the Beneficiary reported ARC revenues accurately and completely for High Cost Program purposes. The Beneficiary overstated its ARC true-up revenues by $6,106 as reported on the Program Year 2017 CAF ICC Form. KPMG noted the Beneficiary did not impute these revenues.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper reporting of revenue amounts to validate all appropriate revenue adjustments were included in the revenue total utilized for the 2017 CAF ICC Form.

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 $6,106 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
CAF ICC	($6,106)
Total	**($6,106)**

RECOMMENDATION

KPMG recommends the Beneficiary enhance the preparation, review and approval processes governing the calculation of 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

USAC regulations for the reporting of revenue have been reviewed to ensure compliance. Accounting staff will receive periodic training to make sure that we stay in compliance with USAC accounting and reporting requirements.

CRITERIA

Finding	Criteria	Description
#1	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, 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 an Inaccurate Revenues finding.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
CAF ICC	($6,106)
Total Impact	**($6,106)**

** This concludes the audit report.**

Attachment H

HC2021LR022

Twin Valley Telephone Inc.
Audit Reference ID: HC2021LR022
(SAC No.: 411840)

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: February 9, 2023

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

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

EXECUTIVE SUMMARY

February 9, 2023

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 Twin Valley Telephone Inc. Study Area Code ("SAC") No. 411840 ("Twin Valley" or "Beneficiary") for disbursements, of $742,584[1] 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 September 20, 2021 to February 9, 2023, and our results are as of February 9, 2023.

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 $742,584, 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.

[1] This amount is Connect America Fund Intercarrier compensation (CAF ICC) funds only. Based on 2016 Rate-of-Return Reform Order, beneficiaries that are FCC authorized to receive ACAM II funds must forfeit their Legacy funds (i.e., High Cost Loop (HCL) and Connect America Fund Broadband Loop Support (CAF BLS)). The Beneficiary converted to ACAM II in 2019, thus any HCL and CAF BLS funds received were converted to ACAM II funds and were not in scope for this audit.

As our report further describes, KPMG identified one finding as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost Program for the twelve-month period ended December 31, 2019 were $1,730 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
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
TVT	Twin Valley Telephone
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[2]
HC2021LR022-F01: 47 C.F.R. § 51.917(d)(1)(vii) Inaccurate Revenues – The Beneficiary overstated ARC revenues on the CAF ICC form compared to the G/L due to excluding revenue adjustments. These revenues were not imputed.	($1,730)
Total Net Monetary Effect	**($1,730)**

[2] 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 411840, 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.

	CAF ICC	**USAC Recovery Action**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	($1,730)	($1,730)	N/A
Mechanism Total	($1,730)	($1,730)	**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, OBJECTIVE, 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 obtain eligible recovery that is not recovered 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 to the extent that their consumer broadband revenue requirements exceed their imputed consumer broadband revenues. 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 $742,584, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Twin Valley Telephone Inc. (SAC No. 411840), the subject of this performance audit, is a rural ILEC located in Clay Center, Kansas that serves over 11,000 customers in Kansas. Twin Valley provides an array of services including residential voice, television, and internet as well as business voice and internet services.

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 ICC	$742,584
Total	**$742,584**

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 CAF ICC Form, based on program year 2017 data

In the above referenced form, the High Cost program beneficiaries provide totals of certain pre-designated G/L Accounts including revenues.

OBJECTIVE

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 $742,584, made from the High Cost Program during the twelve-month period ended December 31, 2019.

SCOPE

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

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

1. Revenues, Subscriber Listings and Billing Records
2. Revenue Requirement

[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.

PROCEDURES

1. 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.

2. 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 the finding, recommendation and Beneficiary response regarding the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such finding 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 finding or recommendation noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

Through its audit, KPMG identified one finding and details the finding, including the condition, cause, effect, recommendation and Beneficiary Response are below:

HC2021LR022-F01: 47 C.F.R. § 51.917(d)(1)(vii)– Inaccurate Revenues

CONDITION

KPMG obtained and examined the G/L Revenue and the 2018 CAF ICC Form data to determine whether the Beneficiary reported ARC revenues accurately for High Cost Program purposes. The Beneficiary overstated its ARC true-up revenues by $3,460 as reported on the Program Year 2018 CAF ICC Form. KPMG noted the Beneficiary did not impute these revenues.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper reporting of revenue amounts to validate all appropriate revenue adjustments were included in the revenue total utilized for the 2018 CAF ICC Form.

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 $1,730 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
CAF ICC	($1,730)
Total	**($1,730)**

RECOMMENDATION

KPMG recommends the Beneficiary enhance the preparation, review and approval processes governing the calculation of 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

Twin Valley Telephone, Inc. (TVT) agrees with this finding. TVT will ensure that the reported ARC revenues are accurate in subsequent CAF ICC filings through a more detailed review process.

CRITERIA

Finding	Criteria	Description
#1	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 an Inaccurate Revenues finding.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
CAF ICC	($1,730)
Total Impact	**($1,730)**

** This concludes the audit report.**