High Cost and Low Income Committee Meeting

Audit Reports Briefing Book

Monday, July 24, 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: April 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Sweetser Telephone Company **Attachment A**	0	• Not applicable.	$776,229	$0	$0	N/A
Shenandoah Telephone Company **Attachment B**	2	• No significant findings.	$5,141,034	($19,308)	$0	N
Sacred Wind Communication, Inc. **Attachment C**	0	• Not applicable.	$9,403,517	$0	$0	N/A
Twin Lakes Telephone Cooperative Corporation **Attachment D**	0	• Not applicable.	$16,321,720	$0	$0	N/A
Whidbey Telephone Company **Attachment E**	2	• No significant findings.	$5,379,174	$66,790	$66,790	Partial
Total	**4**		**$37,021,674**	**$47,482**	**$66,790**	

Attachment A

HC2022LR001

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Sweetser Telephone Company

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

USAC Audit No. HC2022LR001

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EXECUTIVE SUMMARY

February 2, 2023

Scott Winger, President
Sweetser Telephone Company
210 N. Main Street
P.O. Box 200
Sweetser, IN 46987

Dear Mr. Winger:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Sweetser Telephone Company (Beneficiary), study area code 320827 disbursements for the year ended December 31, 2020, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 36, 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 scope performance audit.

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

Based on the test work performed, our examination did not disclose any areas of non-compliance with FCC Rules that were in effect during the audit period.

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

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

PURPOSE, SCOPE, AND PROCEDURES

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

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

High Cost Support	Documentation Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	$613,320
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2018-2019	$120,414
High Cost Loop (HCL)	2018	$42,495
Total		**$776,229**

BACKGROUND
The Beneficiary is an average schedule eligible telecommunications carrier (ETC) that operates in Indiana.

PROCEDURES
AAD performed the following procedures:

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

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

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

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

D. 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.

E. Exchanges

AAD obtained and examined general exchange tariffs (if applicable) and other related documentation to determine whether the Beneficiary reported the accurate number of exchanges.

This concludes the report.

Attachment B

HC2022LR003

Universal Service Administrative Co.

Available for Public Use

Shenandoah Telephone Company

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

USAC Audit No. HC2022LR003

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EXECUTIVE SUMMARY

February 23, 2023

Danielle Brooks
Senior Accountant
Shenandoah Telephone Company
500 Shentel Way, P.O. Box 459
Edinburg, VA 22824

Dear Danielle Brooks:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Shenandoah Telephone Company (Beneficiary or Shentel), study area code 190250 disbursements for the year ending December 31, 2020, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 51 and 54, as well as other program requirements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited scope performance audit.

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

Based on the test work performed, our examination disclosed two (2) detailed audit findings (Findings), as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period.

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

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

Sincerely,

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

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Result	Monetary Effect and Recommended Recovery[1]		
	CAF BLS	CAF ICC	Total
Finding #1: 47 C.F.R. § 51.917(e)(1),(2) - Inaccurate Access Recovery Charge (ARC) Revenues AAD noted difference between the reported ARC Revenues and the imputed ARC revenues. The carrier did not impute and report the maximum ARC charges.	$0	$19,441	$19,441
Finding #2: 47 C.F.R. § 54.903(A)(1) – Inaccurate access Line Counts The Beneficiary provided incorrect monthly access line counts, which resulted in inaccurate revenue calculations.	($26,234)	($12,515)	($38,749)
Total	**($26,234)**	**$6,926**	**($19,308)**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 190250, 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.

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 recover support in the case of a net underpayment. Thus, USAC's recovery action is $0.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$3,324,774
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2018 - 2019	2020	$1,816,260
Total			**$5,141,034**

BACKGROUND

The Beneficiary is an average schedule eligible telecommunications carrier (ETC) that operates in Virginia.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Subscriber Listing and Billing Records

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

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

D. 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.

E. Form 481

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 51.917(e)(1), (2)– Inaccurate Access Recovery Charge Revenues

CONDITION

AAD obtained and examined the Beneficiary's supporting documentation to determine whether the Beneficiary reported the accurate maximum Access Recovery Charge Revenues (ARC Revenues) for High Cost program purposes.[2] Based on AAD's review of the Beneficiary's supporting documentation, the Beneficiary used the ARC Revenue from its general ledger to report its ARC Revenue rather than imputing the ARC revenue.[3] To impute the Beneficiary's ARC Revenues, AAD examined the Beneficiary's line counts per subscriber listing and multiplied the maximum ARC rate and identified the following differences between the Beneficiary's imputed ARC Revenues and the Beneficiary's reported ARC Revenues:

Summary of ARC Revenue Differences	Program Year 2020-2021	Program Year 2019-2020	Total
Reported ARC Revenues	$494,228	$656,310	$1,150,538
Imputed ARC Revenues	$488,082	$688,383	$1,176,465
Difference: Over/(Under) Reported	**$6,146**	**($32,073)**	**($25,927)**

FCC Rules require the Beneficiary to impute the maximum ARC Revenues.[4] Because the imputed ARC Revenues were greater than the Beneficiary's reported ARC Revenues, AAD concludes that the Beneficiary did not report the maximum ARC charges.[5]

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report the correct ARC Revenues along with ARC classifications for High Cost program purposes. The Beneficiary informed AAD of the misclassification of multiline business incorrectly assigned to single line business.[6]

EFFECT

AAD calculated the monetary effect of this finding by adding the difference between the understated amounts to the reported revenues by the Beneficiary in its ARC Revenue accounts in its CAF ICC filing. AAD summarized the results below:

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[2] 47 C.F.R. § 51.917(f)(2) (2018).
[3] The Beneficiary generated Consumer Broadband-Only Loop (CBOL) revenues, which are included in the analysis above.
[4] *Id*.
[5] *See* supra note 2.
[6] Beneficiary provided information as part of an Audit Inquiry on May 23, 2022.

Support Type	Monetary Effect and Recommended Recovery
CAF ICC	$19,441

RECOMMENDATION

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

The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules and Orders. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary substantiates the inputs, calculates, documents and ensures accurate reporting of the access recovery charge revenues reported for High Cost program purposes. More information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Shentel agrees with Finding #1. Shentel will impute the ARC Revenue using the Subscriber Line Counts / classification at the applicable ARC rate going forward.

Finding #2: 47 C.F.R. § 54.903(a)(1) – Inaccurate Access Line Counts

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing to determine whether the Beneficiary reported accurate access line counts and the consumer broadband line counts for High Cost purposes. AAD identified the following differences between the Beneficiary's subscriber listing and the total access lines reported for High Cost program purposes after removing "Employee Concession Lines" and Lifeline residential Lines":[7]

Summary of Access Line Count Differences	
Total Access Lines Reported	177,679
Total Access Lines per Beneficiary Subscriber listing	178,748
Total Access Line Count Difference Over/(Under)	**(1,069)**

FCC Rules require the Beneficiary to submit the number of lines it serves to the National Exchange Carriers Association (NECA) and update the information submitted.[8] Because the Beneficiary's supporting documentation did not agree with what was reported to the NECA, AAD concludes that the Beneficiary

[7] No differences noted on the CBOL line counts.

[8] 47 C.F.R. § 54.903(a)(1) (2018); 47 C.F.R. § 54.1306 (2018); 47 C.F.R. § 54.1305(a) (2018).

reported inaccurate Access Line Counts, which resulted in inaccurate revenue calculations.[9] The Beneficiary must report accurate Access Line Counts for CAF BLS and CAF ICC Program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate access line counts for High Cost Program purposes. The Beneficiary indicated that it had an error in the query set to pull the data for HC reporting purposes.[10]

EFFECT

AAD calculated the monetary effect of this finding by adding the under-reported amount of access line counts to the total access line count reported by the Beneficiary in its High Cost program filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
CAF BLS	($26,234)
CAF ICC	($12,515)
Total	**($38,749)**

RECOMMENDATION

The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules and Orders. The Beneficiary must develop and implement policies, procedures and processes that describe how the Beneficiary will ensure it has an adequate system in place to accurately report the number of access lines for High Cost program purposes. In addition, the Beneficiary must update and review the queries used to report information for High Cost purposes and review it for completeness and accuracy. More information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Shentel agrees with Finding #2. Shentel will document and review queries used for High Cost reporting for completeness and accuracy.

[9] 47 C.F.R. § 54.903(a)(1) (2018); 47 C.F.R. § 54.1306 (2018).

[10] Beneficiary provided information as part of an Audit Inquiry on May 23, 2022.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R § 51.917(e)(1), (2) (2018)	(e) Access Recovery Charge. (1) A charge that is expressed in dollars and cents per line per month may be assessed upon end users that may be assessed a subscriber line charge pursuant to §69.104 of this chapter, to the extent necessary to allow the Rate-of-Return Carrier to recover some or all of its Eligible Recovery determined pursuant to paragraph (d) of this section, subject to the caps described in paragraph (e)(6) of this section. A Rate-of-Return Carrier may elect to forgo charging some or all of the Access Recovery Charge. (2) Total Access Recovery Charges calculated by multiplying the tariffed Access Recovery Charge by the projected demand for the year may not recover more than the amount of eligible recovery calculated pursuant to paragraph (d) of this section for the year beginning on July 1.
#1	47 C.F.R § 51.917(f)(2) (2018)	(2) Beginning July 1, 2012, a Rate-of Return Carrier may recover any eligible recovery allowed by paragraph (d) of this section that it could not have recovered through charges assessed pursuant to paragraph (e) of this section from CAF ICC Support pursuant to §54.304. For this purpose, the Rate-of-Return Carrier must impute the maximum charges it could have assessed under paragraph (e) of this section.
#2	47 C.F.R. § 54.903(a)(1) (2018)	Each rate-of-return carrier shall submit to the Administrator in accordance with the schedule in § 54.1306 the number of lines it serves, within each rate-of-return carrier study area showing residential and single-line business line counts, multi-line business line counts, and consumer broadband-only line counts separately. For purposes of this report, and for purposes of computing support under this subpart, the residential and single-line business class lines reported include lines assessed the residential and single-line business End User Common Line charge pursuant to § 69.104 of this chapter, the multi-line business class lines reported include lines assessed the multi-line business End User Common Line charge pursuant to § 69.104 of this chapter, and consumer broadband-only lines reported include lines assessed the Consumer Broadband-only Loop rate charged pursuant to § 69.132 of this chapter or provided on a detariffed basis. For purposes of this report, and for purposes of computing support under this subpart, lines served using resale of the rate-of-return local exchange carrier's service pursuant to section 251(c)(4) of the Communications Act of 1934, as amended, shall be considered lines served by the rate-of-return carrier only and must be reported accordingly.

Finding	Criteria	Description
#2	47 C.F.R. § 54.1305(a) (2018)	(a) In order to allow determination of the study areas and wire centers that are entitled to an expense adjustment pursuant to §54.1310, each incumbent local exchange carrier (LEC) must provide the National Exchange Carrier Association (NECA) (established pursuant to part 69 of this chapter) with the information listed for each study area in which such incumbent LEC operates, with the exception of the information listed in paragraph (h) of this section, which must be provided for each study area. This information is to be filed with NECA by July 31st of each year. The information provided pursuant to paragraph (i) of this section must be updated pursuant to §54.1306. Rural telephone companies that acquired exchanges subsequent to May 7, 1997, and incorporated those acquired exchanges into existing study areas shall separately provide the information required by paragraphs (b) through (i) of this section for both the acquired and existing exchanges.
#2	47 C.F.R. § 54.1306 (2018)	(a) Any incumbent local exchange carrier subject to §54.1301(a) may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to §54.1305 one or more times annually on a rolling year basis according to the schedule. (1) Submit data covering the last nine months of the previous calendar year and the first three months of the existing calendar year no later than September 30th of the existing year; (2) Submit data covering the last six months of the previous calendar year and the first six months of the existing calendar year no later than December 30th of the existing year; (3) Submit data covering the last three months of the second previous calendar year and the first nine months of the previous calendar year no later than March 30th of the existing year.

This concludes the report

Attachment C

HC2022LR022

Available For Public Use

Sacred Wind Communication, Inc.

Limited Review Performance Audit on

Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules

Prepared For:

Universal Service Administrative Company

September 30, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

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EXECUTIVE SUMMARY

September 30, 2022

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a performance audit on the compliance of Sacred Wind Communication Inc. (Beneficiary), study area code **493403** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from February 24 to September 30, 2022.

We 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 we 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 our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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 the Universal Service Administrative Company, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
September 30, 2022

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified no significant findings.

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides service to over 3,000 subscribers in northwest New Mexico. The Beneficiary is a wholly owned subsidiary of Sacred Wind Enterprises (SWE), which also owns and operates SWC Telesolutions, Inc. and SW DinehNet, LLC. The Beneficiary along with its affiliated entities provide non-regulated services including tower leases and voicemail services.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program (HCP), a component of the USF, ensures that consumers in rural areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. During the relevant audit period, the following support mechanisms were available to cost-based telecommunications carriers:

- High Cost Loop support (HCL): HCL is available for rural companies operating in services areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support, which replaced Local Switching Support, is available to ILECs to assist them in recovering a portion of the revenue requirement related to switching investment that is not covered by the access recovery charge (ARC) billed to the end user or certain other charges billed to other carriers. This revenue requirement was frozen based on forecasted switching investment filed by eligible carriers in 2011 and is being reduced by 5% per year. CAF ICC disbursements began July 1, 2012.

- CAF Broadband Loops Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

OBJECTIVE

The objective of our performance audit was to evaluate the Beneficiary compliance with the FCC Rules.

SCOPE
The chart below summarizes the High Cost program support that was included in the audit scope:

High Cost Support	Date Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$3,736,962
High Cost Loop (HCL)	2018-2019	2020	$5,392,019
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$274,536
		Total	**$9,403,517**

PROCEDURES
We performed the following procedures:

A. High Cost Program Support Amount
We 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
We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

C. Fixed Assets
We obtained and examined the Beneficiary's continuing property records (CPRs) and related documentation to determine whether the Beneficiary reported accurate central office switching equipment balances as well as cable and wire facility equipment balances. We also examined invoices, work orders, and documentation to support labor and overhead allocations as well as conducted a physical inventory to determine whether the Beneficiary categorized fixed assets to the proper accounts.

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

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

F. Affiliate Transactions
We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. Section 32.27.

G. Cost Allocation
We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

Attachment D

HC2022LR026

Available For Public Use

Twin Lakes Telephone Cooperative Corporation

Limited Review Performance Audit on

Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules

Prepared For:

Universal Service Administrative Company

February 3, 2023

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

February 3, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a performance audit on the compliance of Twin Lakes Telephone Cooperative d/b/a Endeavor Communications (Endeavor) (Beneficiary), study area code **290579** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from April 14, 2022, to January 15, 2023.

We 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 we 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 our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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 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.

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP

Greenbelt, MD
February 3, 2023

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified no significant findings.

USAC MANAGEMENT RESPONSE

Not Applicable

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

Twin Lakes Telephone Cooperative Corporation and its wholly-owned subsidiaries, Twin Lakes Communications, Inc. (TLC), and OnWav, Inc. (OnWav), is a cost-based eligible telecommunications carrier (ETC) that operates in Tennessee. The Cooperative's principal line of business is providing local telephone service, broadband, and access to long-distance telephone service through its local exchange network in Jackson County, Tennessee and surrounding areas. TLC provides long-distance telephone, broadband, CLEC services, and video entertainment services for its customers. TLC also provides security installation, maintenance, and monitoring to residential and commercial customers in middle Tennessee and surrounding areas. OnWav provides local and long-distance VOIP service along with wired and wireless internet service and directory advertising and media service. The principal markets for these services are local residential and business customers residing in the exchanges the Cooperative serves and surrounding areas.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program (HCP), a component of the USF, ensures that consumers in rural areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. During the relevant audit period, the following support mechanisms were available to cost-based telecommunications carriers:

- High Cost Loop support (HCL): HCL is available for rural companies operating in services areas where the cost to provide service exceeds 115% of the national average cost per loop.
- Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support, which replaced Local Switching Support, is available to ILECs to assist them in recovering a portion of the revenue requirement related to switching investment that is not covered by the access recovery charge (ARC) billed to the end user or certain other charges billed to other carriers. This revenue requirement was frozen based on forecasted switching investment filed by eligible carriers in 2011 and is being reduced by 5% per year. CAF ICC disbursements began July 1, 2012.
- CAF Broadband Loops Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

OBJECTIVE

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

SCOPE

The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Date Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$10,779,120
High Cost Loop (HCL)	2018	2020	$4,497,070
CAF Intercarrier Compensation (ICC)	2018	2020	$1,045,530
		Total	**$16,321,720**

PROCEDURES

We performed the following procedures:

A. High Cost Program Support Amount

We 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

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

C. Fixed Assets

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

D. Operating Expenses

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

E. Revenues

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. Section 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs, and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

Attachment E

HC2021LR002

Whidbey Telephone Company
Audit Reference ID: HC2021LR002
(SAC No.: 522452)

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

Prepared for: Universal Service Administrative Company

As of Date: 3/9/2023

KPMG LLP
8350 Broad Street Suite 900
McLean, VA 22102

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KPMG

KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

March 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 Whidbey Telephone Company Study Area Code ("SAC") No. 522452 ("Whidbey" or "Beneficiary") for disbursements, of $5,379,174 made from the Universal Service High Cost program during the twelve-month period ended December 31, 2019. Our work was performed during the period from July 19, 2021 to March 9, 2023, and our results are as of March 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 $5,379,174, 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 two findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost program for the twelve-month period ended December 31, 2019 were $66,790 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 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 March 9, 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
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
CBOL	Consumer Broadband-Only Loops
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
Whidbey	Whidbey Telephone Company

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Impact Overpayment (Underpayment)[1]		
	CAF BLS	CAF ICC	Total
HC2021LR002-F01: 47 C.F.R. §§ 32.2000(e)(2), 32.2000(e)(3), and 54.320(b) (2017) – Lack of Supporting Documentation: Assets – The Beneficiary was unable to provide supporting documentation for the sampled asset transactions. It did not maintain the required documentation as prescribed by FCC Rules.	$64,048	N/A	$64,048
HC2021LR002-F02: 47 C.F.R. § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation – The Beneficiary used ending month balances instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules.	$2,742	N/A	$2,742
Total Net Monetary Effect	$66,790	N/A	$66,790

[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 522452, 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.

	BLS (B)	**CAF ICC (C)**	**USAC Recovery Action (A) + (B) + (C)**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	$64,048	N/A	$64,048	N/A
Finding #2	$2,742	N/A	2,742	N/A
Mechanism Total	$66,790	N/A	$66,790	N/A

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 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 for rate-of-return carriers to the extent that SLC caps do not permit them to recover their common line revenue requirements. CAF BLS replaced ICLS effective July 1, 2016.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost program relative to disbursements, of $5,379,174, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Whidbey Telephone Company (SAC No. 522452), the subject of this performance audit, is a rural ILEC located in Langley, Washington which is on Whidbey Island and serves over 8,000 customers in the state of Washington. Whidbey provides broadband and voice services. The Beneficiary has a direct business relationship with Hat Island Telephone Company (SAC No. 522417), another rural ILEC, located on the Hat Island, that is not the subject of this audit.

In 2017, the Beneficiary provided long distance telecommunication services through its wholly owned subsidiary, Western Long Distance, Inc. Other subsidiaries that are wholly owned by the Beneficiary include American Alarm Systems, Inc., WiFire, Inc., WaterCrest, Inc., and FiberCloud, Inc. In addition, WaterCrest, Inc. wholly owns Second Wind at Ten, LLC, and South Woodard, LLC. American Alarm

Systems, Inc. is a tech company providing alarm and monitoring services. WiFire, Inc. is a cafe that provides different types of foods and beverages. WaterCrest, Inc., including its subsidiaries, Second Wind at Ten, LLC, and South Woodard, LLC, collectively invest in real property and serves its customers with their real estate needs. FiberCloud, Inc. is a data center provider that serves its customers with cloud hosting, co-location, and managed IT 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 BLS	$4,217,244
CAF ICC	$1,161,930
Total	**$5,379,174**

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 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 $5,379,174, made from the High Cost program during the twelve-month period ended December 31, 2019.

SCOPE

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

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

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

PROCEDURES

1. Materiality Analysis

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

2. Reconciliation

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

3. Assets

KPMG compared Whidbey's asset records reported in the G/L with the Beneficiary's CPR details to determine whether the Beneficiary maintained and reported accurate asset records. KPMG noted the Beneficiary did not keep sufficient CPR details for records prior to 2017. KPMG attempted to obtain additional documentation from the Beneficiary to resolve the variance, but the Beneficiary was unable to accommodate this request. Whidbey stated that it had administrative issues in the years prior to 2017 that adversely impacted the Beneficiary to maintain sufficient CPRs.

[2] If exceptions (instances of 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.

KPMG utilized a monetary unit sampling (MUS)[3] methodology to select 24 asset samples from material accounts identified in the relevant High Cost program forms. We made asset selections from CPR details, and material accounts included COE, 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. KPMG noted the Beneficiary was unable to provide sufficient supporting documentation for 11 of the 24 sampled asset transactions. KPMG attempted to complete alternative procedures to obtain supporting documentation for similar assets for a similar timeframe, but the Beneficiary did not attempt to identify assets that would fulfill this request.

4. **Expenses**

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

5. **High Cost program Eligibility Forms**

   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 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 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.

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

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 tax filings for 2017, note 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 Telephone Bills, Voice & Internet Bills, and Interest Income charges 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. We assessed the Beneficiary's transactions reported in the G/L including transactions related to the subsidiaries and determined that the Beneficiary did not record affiliate transactions with each one of the aforementioned subsidiaries. KPMG however noted some affiliate transactions from which we selected three samples for testing. For the three samples selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and 47 C.F.R. Section 36.2 and categorized in the appropriate Part 32 accounts.

12. Revenues, Subscriber Listings and Billing Records

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

13. Revenue Requirement

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

RESULTS

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

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

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

HC2021LR002-F01: 47 C.F.R. §§ 32.2000(e)(2), 32.2000(e)(3), and 54.320(b) (2017) – Lack of Supporting Documentation: Assets

CONDITION

KPMG tested a sample of 24 asset transactions, totaling $18,953,624 from an asset population totaling $101,123,493 to determine whether the Beneficiary reported its asset account balances accurately for High Cost program purposes. The Beneficiary was unable to provide sufficient and appropriate supporting documentation for 11 of the sampled asset transactions, totaling $6,759,925. For the 11 unsupported assets, one asset related to COE placed in service in 2016 and the remaining 10 assets related to C&WF placed in service between 2001 and 2013, with $6,513,520 of the unsupported asset transactions related to 2001 and 2002.

For nine of the 24 asset samples tested, the Beneficiary could not provide adequate supporting documentation, outside of a high level work order summary, to validate CPR asset balances. For two of the 24 asset samples tested, the Beneficiary was unable to provide any supporting documentation including a work order summary[4]. Additionally, KPMG attempted to complete alternative procedures to obtain supporting documentation for similar assets for a similar timeframe, but the Beneficiary was not able to identify assets that would fulfill this request.

KPMG summarized the value of the unsupported asset transactions and relevant Accumulated Depreciation and Depreciation Expense for the twelve-month period ended December 31, 2017 below:

Account Description	Unsupported Balance
Account 2232: Central Office Transmission Equipment	$3,590
Account 2423: Cable & Wire Facilities	$6,756,335
Account 3100 (2232): Accumulated Depreciation - Central Office Transmission Equipment	$258
Account 3100 (2423): Accumulated Depreciation - Cable and Wire Facilities	$3,179,295
Account 6560 (2232): Depreciation and Amortization Expense – Central Office Transmission Equipment	$258
Account 6560 (2423): Depreciation and Amortization Expense – Cable and Wire Facilities	$209,446

[4] *See* 47 C.F.R. § 32.2000(e)(2) and **32.2000(e)(3)** in the criteria section of the report.

According to FCC rules, a carrier must have basic property records which are: subject to internal accounting controls; auditable; equal to the investment reflected in the financial property control accounts and the total of the cost allocations supporting cost-of-service at any time; and maintained throughout the life of the property.[5] FCC rules also require a carrier to retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules for at least ten years from the receipt of funding.[6]

CAUSE

The Beneficiary did not have adequate processes in place governing the proper retention of all records required to demonstrate to auditors that the support received was consistent with the High Cost program as prescribed by FCC Rules.[7]

EFFECT

KPMG calculated the monetary impact of this finding by subtracting the value of the overstatement from the total amount reported by the Beneficiary in its respective account or line items on the HC forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an over-payment of $64,048 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$64,048
CAF ICC	N/A
Total	$64,048

RECOMMENDATION

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

KPMG recommends the Beneficiary enhance the documentation processes and data retention governing the asset records 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

The Beneficiary does not agree with the foregoing audit finding, including the audit interpretation of FCC requirements as applied to the Beneficiary and the audit calculation of alleged excess disbursements (*i.e.,* “over-payment”) to the Beneficiary. However, given the relatively small size of the proposed audit adjustment for this finding (less than 1.2% of total CAF disbursements received by the Beneficiary during the twelve months ended December 31, 2019), the Beneficiary is willing to accept the proposed audit adjustment solely for purposes of resolving the audit and without any admission by the Beneficiary of liability or failure to comply with any applicable regulatory or other legal requirement.

[5] *See* 47 C.F.R. § 32.2000(e)(2) and 32.2000(e)(3) (2017).
[6] *See* 47 C.F.R. § 54.320(b) (2017).
[7] *See* 47 C.F.R. §§ 32.2000(e)(2) and (3), 54.320(b) (2017).

KPMG RESPONSE

KPMG notes the Beneficiary's disagreement with this audit finding which relates to the Beneficiary not retaining adequate support for 11 assets sampled during the audit, as required by FCC 47 C.F.R. §32.2000(e)(2) and (3). The calculation of the over-payment was based on removing those 11 assets and the associated depreciation from the CAF BLS forms and the results were produced by NECA. KPMG notes the Beneficiary's acceptance of the impact to finalize this audit.

HC2021LR002-F02: 47 C.F.R. § 32.2000(g)(2)(ii) and 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG inspected the G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. The Beneficiary used ending month balances, instead of average monthly balances, to compute depreciation expense as prescribed by FCC Rules[8] for the period of January 1, 2017 to December 31, 2017.

Additionally, KPMG noted that the Beneficiary utilized a deprecation rate to calculate the Depreciation Expense for Motor Vehicles that was 4% higher than the rate previously approved by the Washington Public Utilities and Transportation Commission as required per FCC Part 32 Rules[9].

KPMG summarized the net differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month period ended December 31, 2017 below:

Account Description	Variance for the 12 months ended December 31, 2017
Account 3100 (2110): Accumulated Depreciation - General Support Assets	($661)
Account 3100 (2230): Accumulated Depreciation - Central Office Transmission Equipment	($15,050)
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	($3,198)
Account 6560 (2110): Depreciation and Amortization Expense – General Support Assets	($661)
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	($15,050)
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	($3,198)

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

[8] *See* 47 C.F.R. §32.2000(g)(2)(iii) (2017) in the criteria section of the report.
[9] *See* 47 C.F.R. §32.2000(g)(2)(ii) (2017) in the criteria section of the report.

According to FCC rules, a carrier must apply a depreciation rate that will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant.[10] A carrier must also calculate average monthly balance using the balance as of the first and last days of the current month.[11]

CAUSE

The Beneficiary did not have adequate processes in place governing the proper calculation of depreciation using the appropriate methodology as prescribed by FCC Rules.[12]

EFFECT

KPMG calculated the monetary impact of this finding by subtracting or adding the value of the overstatement from, or understatement to, the total amount reported by the Beneficiary in its respective account or line items on the HC forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an over-payment of $2,742 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$2,742
CAF ICC	N/A
Total	$2,742

RECOMMENDATION

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

BENEFICIARY RESPONSE

The Beneficiary concurs in the recommended recovery amount for this finding.

[10] *See* 47 C.F.R. §32.2000(g)(2)(ii) (2017).
[11] *See* 47 C.F.R. §32.2000(g)(2)(iii) (2017).
[12] *See* 47 C.F.R. §32.2000(g)(2)(ii) and 32.2000(g)(2)(iii) (2017).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. §32.2000(e)(2) and (3) (2017)	"The basic property records must be: (i) Subject to internal accounting controls; (ii) auditable; (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time; and (iv) maintained throughout the life of the property."
#1	47 C.F.R. §32.2000(e)(3)	The basic property records shall consist of (i) continuing property records and (ii) records supplemental thereto which together reveal clearly, by accounting area, the detailed and systematically summarized information necessary to meet fully the requirements of paragraphs (e)(1) and (e)(2) of this section.
#1	47 C.F.R. §54.320(b) (2017)	"All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors."
#2	47 C.F.R. 32.2000(g)(2)(ii) (2017)	"Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant."
#2	47 C.F.R. §32.2000(g)(2)(iii) (2017)	"Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month."

CONCLUSION

As discussed in detail above, in our evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 relevant to the disbursements made from the High Cost program during the twelve-month period ended December 31, 2019, KPMG identified two findings including Lack of Supporting Documentation: Assets and Inaccurate Deprecation Calculation.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
CAF BLS	$66,790
CAF ICC	$0
Total Impact	$66,790

KPMG recommends that the Beneficiary enhance the documentation processes and data retention governing asset records and enhance approval processes governing the calculation of depreciation as prescribed by FCC Rules.

** This concludes the audit report.**

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Pine Belt Telephone Company **Attachment F**	0	• Not applicable.	$1,689,103	$0	$0	N/A
Total	**0**		**$1,689,103**	**$0**	**$0**	

Attachment F

HC2021LR016

Available For Public Use

Pine Belt Telephone Company
Audit Reference ID: HC2021LR016
(SAC No.: 250315)

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: 04/20/2023

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

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

EXECUTIVE SUMMARY

April 20, 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 Pine Belt Telephone Company's Study Area Code ("SAC") No. 250315 ("Pine Belt" or "Beneficiary") for disbursements, of $1,689,103 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 15, 2021 to April 20, 2023, and our results are as of April 20, 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 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 $1,689,103, 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.

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 April 20, 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
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
Pine Belt	Pine Belt Telephone Company
SAC	Study Area Code
SLC	Subscriber Line Charge
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

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 $1,689,103, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Pine Belt (SAC No. 250315), the subject of this performance audit, is a rural ILEC located in Arlington, AL that serves over 1,800 customers with telecommunications services.

The Beneficiary is a wholly owned subsidiary of Pine Belt Communications, Inc., which also wholly owns Pine Belt Cellular and holds the majority share of Pine Belt Broadcasting.

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	$791,310
CAF ICC	$389,358
HCL	$508,435
Total	**$1,689,103**

Source: USAC

In addition to the above, the Beneficiary also received $11,692 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.

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 $1,689,103, 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. Additionally, we verified the physical existence of selected assets.

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

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

4. **Expenses**

   KPMG utilized a MUS 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 was 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 (HCL, 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, reviewing Part 36 inputs and confirming whether amounts agreed to the HCL form data.

7. **C&WF Categorization**

   KPMG reviewed the methodology established by the Beneficiary for C&WF categorization including the process for updating the network map and C&WF cost studies. We assessed whether C&WF amounts reconciled to the cost studies and whether amounts agreed to the HCL form data. Additionally, we 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 confirmed the tax filing status for the Beneficiary as a C-Corp and reviewed its Federal and state tax filings for 2017. We reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness and developed an understanding of the effective tax rate. Additionally, we reviewed the Part 64 apportionment of operating tax account balances and evaluated the reasonableness of the Beneficiary's related cost allocation methods.

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 relating to a lease agreement for telecommunications services with Pine Belt Cellular that occurred during 2017. We analyzed the population of affiliate transactions by reviewing the Beneficiary's audited financial statements, trial balance, and intercompany accounts. Additionally, we analyzed a sample of affiliate transactions. For the five samples tested, 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 procedures resulted in no findings.

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 no findings.

** This concludes the audit report.**

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Clay County Rural Telephone Cooperative, Inc. **Attachment G**	4	• Inadequate Documentation: The Beneficiary did not provide adequate supporting documentation for sampled expense transactions.	$9,500,512	$107,768	$107,768	Partial
McDonough Telephone Cooperative **Attachment H**	4	• No significant findings.	$5,242,794	$57,726	$57,726	N
The Siskiyou Telephone Company **Attachment I**	1	• No significant findings.	$9,601,498	$23,755	$23,755	N
West River Telecommunications Cooperative **Attachment J**	2	• No significant findings.	$12,128,005	($6,000)	$0	N
Foothills Rural Telephone Cooperative, Inc. **Attachment K**	4	• Inaccurate Depreciation Expense: The Beneficiary used incorrect asset balances to calculate depreciation expense.	$9,147,795	($337,926)	$0	Partial
Total	**15**		**$45,620,604**	**($154,677)**	**$189,249**	

Attachment G

HC2022LR008

Clay County Rural Telephone Cooperative, Inc.

Limited Review Performance Audit on

Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules

Prepared For:

Universal Service Administrative Company

September 30, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

September 30, 2022

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Clay County Rural Telephone Cooperative d/b/a Endeavor Communications (Endeavor) (Beneficiary), study area code **320753** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from February 24, 2022, to September 30, 2022.

We 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 we 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 our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

Certain information may have been omitted from this report concerning communications with USAC Management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
September 30, 2022

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified four findings, which are summarized below.

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R § 54.320(b) – Inadequate supporting documentation: Expenses. Carrier did not provide adequate supporting documentation for sampled transactions.	$18,479	$34,085	-	$52,564
Finding #2: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 - Support Not Used for Intended Purpose of Federal Universal Service Support Beneficiary included expenses not related to the provision, maintenance, and upgrade of telecommunications facilities.	$7,284	$25,760	-	$33,044
Finding #3: 47 C.F.R. § 54.7(a) – Improper Inclusion for Non-Regulated Amounts and Support Not Used for Intended Purpose of Federal Universal Support. Beneficiary included expenses not related to the provision, maintenance, and upgrade of telecommunications facilities.	$8,982	$13,178	-	$22,160
Finding #4: 47 C.F.R. § 36.3(a) – Unsupported Frozen Factor Allocation. Allocation frozen factor from 2000 Cost Study was not supported by the carrier.	-	-	-	-
Total	$34,745	$73,023	$0	$107,768

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 320753, 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 BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$18,479	$34,085	-	$52,564	N/A
Finding #2	$7,284	$25,760	-	$33,044	N/A
Finding #3	$8,982	$13,178	-	$22,160	N/A
Finding #4	-	-	-	-	N/A
Total	$34,745	$73,023	$0	$107,768	

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Indiana and currently provides service to approximately 9,000 members. Endeavor is a legal singular entity that has regulated incumbent local exchange carrier (ILEC) and non-regulated competitive local exchange carrier (CLEC) under its purview that are tracked via different general ledger divisions. The Incumbent Local Exchange Carrier (ILEC) provides telephone services, while the CLEC provides High Speed. Internet, video, wireless telephone, security, and managed IT.

PROGRAM OVERVIEW

The Universal Service Administrative Company (USAC) is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program, a component of the USF, ensures that consumers in rural areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. During the relevant audit period, the following support mechanisms were available to cost-based telecommunications carriers:

- High Cost Loop support (HCL): HCL is available for rural companies operating in services areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Rate-of-return ILEC Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loop Support (CAF BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVE, SCOPE, AND PROCEDURES

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

SCOPE
The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$ 5,566,008
HCL	2018	2020	$ 2,849,992
CAF ICC	2018	2020	$ 1,084,512
		Total	**$ 9,500,512**

PROCEDURES
We performed the following procedures:

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

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

D. Operating Expenses
We obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. We obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. We obtained and examined general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses.

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. § 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs, and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R § 54.320(b) – Inadequate supporting documentation: Expenses.

CONDITION

CLA obtained and examined the Beneficiary's general ledger for the year ended December 31, 2018, and supporting documentation such as invoices and journal entries to determine whether the Beneficiary properly recorded and categorized expenses for High Cost program purposes. CLA selected a non-statistical, judgmental sample of 18 expense transactions[1] totaling $335,057 for testing in accordance with the High Cost rules. For two of the 18 samples, the Beneficiary did not provide adequate documentation to demonstrate services actually provided:

- For one legal expense sample, the Beneficiary could only provide a retainer proposal describing types of services covered, and invoice with the description of services provided as, "monthly legal retainer fee." Per Beneficiary inquiry to the firm, it was verified that no itemized billings were provided as a flat fee matter, to which the Beneficiary's board of directors approved that no detail would be maintained. This support is not adequate as the statement/invoice does not detail the actual services provided throughout the documentation period to verify that legal services were only related to regulated activities. As such, CLA reviewed the general ledger detail, captured the 12 monthly statements, and removed all the retainer fees totaling $80,010 ($84,000 * 95.25% = $80,010, after taking 4.75% Non-Reg General Allocator).

- For one poles rental sample, CLA determined it to be an estimated accrued amount, and that the Beneficiary had booked accrued amounts for all 12 months of the data period. As such, CLA reconciled the actual for the entire documentation period to the total submitted monthly accrued amounts to verify that the total accrued had been trued up to actual. The result was unsupported over-accrued expense totaling $11,098.

CLA summarized the resulting overstated balances in the table below:

Account	Part 64 Cost Study As Reported A	Overstatement B	Part 64 Cost Study Recalculated A+B
CWF Expense (6410)	$593,644	$(11,098)	$582,546
General Admin. Expense (Account 6720)	$1,706,035	$(80,010)	$1,626,025

CAUSE

The Beneficiary did not have adequate system and controls in place to ensure that supporting documentation for all amounts submitted to the High Cost program is maintained and updated.

EFFECT

CLA calculated the monetary effect by subtracting $11,098 and $80,010 from the CWF and General Administrative Expense accounts, respectively, from the Beneficiary's High Cost

[1] Sampling methodology is derived from FAM, which allows for sample sizes on an entity wide basis. This sample size is for one particular testing area of the entity and takes into consideration items such as sampling method, assessment of compliance risk and the particular accounts effect on high cost support.

program filings. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$ 18,479
HCL	$ 34,085
CAF ICC	$0
Total	**$52,564**

RECOMMENDATION
FCC Rules require carriers to retain all records required to demonstrate support received was consistent to program rules, for at least 10 years.[2] We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary must develop and implement policies, procedures, and processes that ensure that adequate documentation is maintained for all expenses, assets, and calculations for amounts submitted for High Cost program purposes. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE
Endeavor disagrees on the unsupported legal expenses. An engagement letter was provided to show the scope of regulated duties that legal counsel would be responsible for. Endeavor agrees that the accrued Pole Rental Expenses were in error at this time. Endeavor has done a complete review of the accrual process and implemented a true-up process to prevent this issue in the future.

CLA RESPONSE
CLA's position remains unchanged. The engagement letter stipulates the types of services "to be" provided; however, it does not support "actual" services provided and billed for during the term of the engagement letter. Without support of actual services, hours and billed amount for actual hours, CLA cannot validate the services for the expense actually incurred and therefore deems it not adequately supported.

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

CLA obtained and examined the Beneficiary's general ledger for the year ended December 31, 2018, and supporting documentation such as invoices and journal entries to determine whether the Beneficiary properly recorded and categorized expenses for High Cost program purposes.

A non-statistical, judgmental sample of 18 expense transactions[3] totaling $335,057 were selected for testing in accordance with the High Cost rules. CLA identified 3 transactions that were deemed not used for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

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[2] *See* 47 C.F.R § 54.320(b).

[3] Sampling methodology is derived from FAM, which allows for sample sizes on an entity wide basis. This sample size is for one particular testing area of the entity and takes into consideration items such as sampling method, assessment of compliance risk and the particular accounts effect on high cost support.

- Sample 8 and 9: Legal invoices examined were verified to be for cost related to the research and preparation for a merger with another telecommunications entity. CLA verified with the Beneficiary that the legal services rendered by the vendor were all related to merger preparation and reviewed the general ledger for additional transactions for the specific legal vendor to capture all costs totaling $46,465. Note: Only $44,257 was removed as a non-regulated percentage of 4.75% had been previously applied to account 6720.

- Sample 13: Caller Name Delivery (CNAM) Queries, which is the equivalent of Caller-ID services. CLA reviewed the Beneficiary general ledger to total all the CNAM services transactions for the 2018 data period totaling $29,357.

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

Account	As Reported in Part 64 (A)	Unallowable Expenses (B)	Recalculated Balance (A) – (B)
COE Switching Expense (Account 6212)	$171,301	$29,357	$141,944
General Admin. Expense (Account 6720)	$1,706,035	$44,257	$1,661,778

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to identify and exclude all non-regulated expenses from the amounts reported for High Cost program purposes. The Beneficiary informed CLA that it identified and excluded some, but not all, of the non-regulated expenses identified as part of its cost study adjustment process.[4]

EFFECT

CLA calculated the monetary effect of this finding by subtracting $29,357 and $44,257 from the COE Switching Expense and General Administrative Expense accounts, respectively, from the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$7,284
HCL	$25,760
CAF ICC	-
Total	$33,044

RECOMMENDATION

FCC Rules require that carriers use federal universal support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.[5] We recommend that

[4] The Beneficiary provided CLA a list of General Ledger expenses excluded from High Cost filing, on 8/12/2022.

[5] *See* 47 C.F.R § 54.7(a). *See also* All Universal Service High Cost Recipients are Reminded that Support Must be Used for its Intended Purpose, WC Docket No. 10-90, WC Docket No. 14-58, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (2018) and Connect America Fund, et al., WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 (2018).

USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary must develop and implement policies, procedures, and processes to ensure that costs not necessary for the provision, maintenance, and upgrading of facilities are excluded from amounts submitted for High Cost program purposes. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Endeavor agrees that the CNAM and legal expenses in question should be removed. Endeavor will ensure that CNAM and legal expenses not being used for the maintenance, provision, or upgrade of the network will be removed.

Finding #3: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Improper Inclusion for Non-Regulated Amounts and Support Not Used for Intended Purpose of Federal Universal Support.

CLA obtained and examined the Beneficiary's general ledger and cost study adjustments documentation for the twelve months ending December 31, 2018, to determine whether High Cost program support was only used for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Utilizing data analytical tools, CLA identified 409 general ledger transactions totaling $215,841 for the 12 months ended December 31, 2018, that potentially included expenses not related to the provision, maintenance and upgrade of telecom facilities. After further review, CLA identified 86 transactions totaling $49,372 ($47,027 after application of 4.75% non-regulated percentage) that should have been fully or partially excluded. The transactions were related to items including but not limited to membership dues ($22,988), trainings and related expenses ($15,087) and marketing ($11,297), that were not necessary for the provision, maintenance, and upgrading of facilities and should therefore have been removed during the Beneficiary's cost study process.

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

Account	As Reported in Part 64 (A)	Unallowable Expenses[i] (B)	Recalculated Balance (A) – (B)
Marketing Expense (Account 6610)	$618,032	$10,760	$607,272
General Admin. Expense (Account 6720)	$1,706,035	$36,267	$1,669,768

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to identify and exclude all non-regulated expenses from the amounts reported for High Cost program purposes. The Beneficiary informed CLA that it identified and excluded some, but not all, of the non-regulated expenses identified as part of its cost study adjustment process.[6]

EFFECT

CLA calculated the monetary effect of this finding by subtracting $10,760 and $36,267 from the Marketing Expense and General Administrative Expense accounts, respectively, from the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to

[6] The Beneficiary provided CLA a list of General Ledger expenses excluded from High Cost filing, on 8/12/2022.

disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$8,982
HCL	$13,178
CAF ICC	-
Total	$22,160

RECOMMENDATION
FCC Rules require that carriers use federal universal support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.[7] We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary must develop and implement policies, procedures, and processes to ensure that costs not necessary for the provision, maintenance, and upgrading of facilities are excluded from amounts submitted for High Cost program purposes. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE
Endeavor agrees that the advertising and membership dues should've been removed. However, several of the expenses the auditors suggest being removed do in fact assist in the provision, upgrade, and maintenance of the network. Conferences to recruit/hire employees to maintain and upgrade the network are also essential. Training for the sales staff is imperative to provide service to new and existing customers and is a necessary business expense. Endeavor continues to strive to remove all Non-Allowable Expenses per current USF orders and guidance from industry experts.

CLA RESPONSE
Pursuant to the FCC's Public Notice in WC Docket Nos. FCC 15-133 and FCC 18-29, which clarifies existing FCC Rules and Regulations, these expenses are not to be recorded in regulated accounts. CLA's position remains unchanged.

Finding #4: 47 C.F.R. § 36.3(a) – Unsupported Frozen Factor Allocation.

CONDITION
CLA obtained and examined the Beneficiary's frozen allocation factors documentation used for its Part 36 jurisdictional cost study allocated amounts and calculation of assets categorization for Cable and Wire Facilities (CWF) and Central Office Equipment (COE), in order to determine accuracy and that the frozen category relationship factors were from the proper period in time.

The Beneficiary performs its Part 36, COE and CWF allocations and categorizations using elected frozen factors developed in cost study conducted by a previous cost consultant. The current consultant utilized the factors developed by the previous consultant but did not obtain supporting documentation of how the factors were developed. In addition, the Beneficiary was unable to locate the prior cost study report from which the frozen factors were taken. Therefore, CLA is unable to determine the methodology, accuracy and proper time period of the frozen factors

[7] *See* supra note 6.

utilized. Consequently, we are also unable to determine whether the reported Part 36, COE and CWF categorization amounts submitted for High Cost program purposes were accurate.

CAUSE

The Beneficiary did not retain and maintain all necessary and required documentation for collecting, monitoring, and reporting data to remain in compliance with High Cost program rules.

EFFECT

There is no monetary effect for this finding, as CLA is unable to determine that the categorizations for Part 36, COE, and CWF included in the cost study are reasonable and do not have the necessary information to determine updated Part 36 asset categorization allocations.

RECOMMENDATION

We recommend that the Beneficiary implements policies and procedures to ensure it maintains documentation to demonstrate compliance with FCC Rules. Subsequently the FCC issued FCC 18-182 providing for rate of return companies, who are using frozen factors, the opportunity to unfreeze and update the frozen asset category relationships so that they can categorize their costs based on current circumstances.[8] Endeavor (Clay) elected to unfreeze their categories under this Order. As part of the requirements under the transition from frozen to unfrozen categories, Endeavor prepared two cost studies for 2018, one using frozen categories and another using unfrozen categories. An unfrozen cost study has been created every year since 2018. As such, CLA does not find it necessary to recommend that the Beneficiary perform a more recent study to establish no Frozen Factors. CLA does recommend that USAC program follow-up on the Beneficiary's submission of CWF allocation subsequent to data period 2018/disbursement period 2020.

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

BENEFICIARY RESPONSE

Endeavor elected to freeze their factors as part of the 2001 Separations Freeze Order. This analysis was completed by a prior consultant and the data is no longer available from 22 years ago.

CLA RESPONSE

Since, an unfrozen cost study has been created every year since 2018, CLA does not see the need to recommend that the Beneficiary perform a more recent study to establish up to date unfrozen Asset Categorization Factors. CLA does recommend USAC's program office follow-up on the Beneficiary's submission of CWF allocation subsequent to data period 2018, disbursement period 2020. The Beneficiary should also be mindful of the requirement to retain adequate documentation 10 years from the receipt of funding to demonstrate that support received was consistent with the universal service high cost rules as noted in 47 C.F.R § 54.320(b).

[8] *See* Jurisdictional Separations, FCC 18-182, 33 FCC Rcd 12743 (19).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R § 54.320(b)(2018)	**Compliance and recordkeeping for the high-cost program.** … (b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.
#2, 3	47 C.F.R. § 54.7(a)(2018)	**Intended use of federal universal service support** (a) A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.
#2, 3	All Universal Service High Cost Recipients are Reminded that Support Must be Used for its Intended Purpose, WC Docket No. 10-90, WC Docket No. 14-58, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (2018).	Under federal law, high-cost support provided to an ETC must be used “only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.” … The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol; • Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; • Political contributions; • Charitable donations; • Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and

		• Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages.
#2, 3	Connect America Fund, et al., WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 (2018).	19. Personal Expenses.—Initially, we codify the existing prohibition on recovery from the high-cost program for personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for personal travel, personal vehicles, housing, such as rent, mortgages, or housing allowances, childcare, employee gifts, and entertainment-related expenses including food and beverage, regardless of whether such expenses are paid directly by the individual or indirectly by the carrier in the form of allowances or gifts. Personal expenses are clearly not used for the provision of supported services and thus may not be recovered through high-cost support. Furthermore, we caution recipients of high-cost support that recovering these types of expenses from high-cost support may constitute outright fraud, waste, and abuse on the Fund, subjecting employees, executives, and board members to personal civil and criminal liability. 20. The Commission already explicitly excludes personal travel expenses from high-cost support recovery. Personal travel expenses include airfare, car rentals, gas, lodging, and meals for personal use. Commenters overwhelmingly agree that personal travel is unrelated to the provision of a supported service and may not be recovered through high-cost support. In response to concerns raised by commenters, we find that, in contrast to personal travel expenses, reasonable work-related travel expenses are recoverable to the extent they are used for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended. For example, if an ETC's technician travels to repair a supported facility and such travel requires overnight accommodation, the ETC may recover that employee's reasonable hotel costs. …

		25. It is undisputed that gifts to employees may not be recovered through high-cost support. Gifts to employees are unrelated to the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended, and therefore are excluded from high-cost support. 26. Entertainment and food and beverage expenses, including but not limited to expenses incurred for meals to celebrate personal events, such as weddings, births, or retirements, are explicitly not recoverable through high-cost support. Some commenters agree that entertainment expenses in particular have not been recoverable in the past. Other commenters disagree, claiming that recovering entertainment expenses incurred for "client or vendor meetings, or attendance at board meetings" is a "common and accepted practice." Some commenters maintain that they should be able to include food and beverage and entertainment expenses related to annual meetings, employee recognition, parties or picnics because such events build morale and improve service quality. The question is whether these expenses are used only for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended—not whether they are beneficial, desirable or common practice. Because these expenses do not meet our interpretation of what the statutory standard requires, we exclude them from high-cost support. As noted above, we acknowledge that meals provided during business-related travel may qualify as a reasonable per diem travel expense recoverable from high-cost support consistent with our interpretation of section 254(e). … 28. Expenses Unrelated To Operations.—We next codify the existing prohibitions on recovering support for expenses unrelated to operations—including political contributions, charitable donations, scholarships, membership fees and dues in clubs and organizations, sponsorships of conferences or community events, and penalties or fines for statutory or regulatory violations, penalties or fees for late payments on debt, loans, or other payments—from high-cost support. ETCs calculate high-cost universal support, including high cost loop support (HCLS) and Connect America Fund Broadband Loop Support (CAF BLS) (formerly interstate common line support (ICLS)), based on their eligible capital investment and operating

		expenses pursuant to section 54.303. Expenses unrelated to operations, however, are not currently included in these high-cost support calculations.78 Instead, under our current rules, “nonoperating expenses”—including political contributions, contributions for charitable, social, or community welfare purposes, membership fees and dues in social, service and recreational or athletic clubs and organizations, and penalties and fines on account of violations of statutes—are recorded in Account 7300, presumed excluded from the costs of service in setting rates, and not included in high-cost support calculations. Expenses unrelated to operations have historically not been recoverable from high-cost support because by definition these expenses are not operational in nature and are ancillary to core business objectives. Expenses must fall within the scope of the statutory requirement that support be used “only for the provision, maintenance, and upgrading of facilities and services for which support is intended.” Below we find that various expenses unrelated to operations, including various Account 7300 nonoperating expenses, do not satisfy this standard and, thus, may not be recovered from high cost support. … 31. Charitable donations and scholarships are expenses unrelated to operations that may not be recovered from high-cost support. We recognize the benefits charitable donations provide to the community, as raised by multiple commenters. However, charitable donations are unrelated to the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended. 32. Membership fees and dues in clubs and organizations, including social, service, and recreational or athletic clubs and organizations, as well as trade associations and organizations that provide professional or trade certifications such as state bar associations, are expenses unrelated to operations excluded from high-cost support. Commenters agree that these expenses related to social and recreational clubs and organizations are already excluded from high-cost support recovery. But those same and other commenters also argue that membership fees and dues in trade associations, chambers of commerce, state bar associations and professional certifications for

		specialized employees should be recoverable. We recognize the educational and training benefits that trade associations provide and that membership in chambers of commerce may help stimulate business. However, as other commenters acknowledge, a function of many of these organizations is advocacy on behalf of their members for the purpose of influencing public policy which is not used for the provision, maintenance, and upgrading of facilities and services for which support is intended. Just as ETCs may not recover lobbying expenses under our rules, similarly, they may not recover membership fees in organizations that engage in lobbying. Further, professional affiliations or certifications such as state bar associations, accounting associations, or other professional groups may facilitate general corporate functions but are not used only for the provision of supported facilities and services.
#4	47 C.F.R. § 36.3(a)(2018)	Effective July 1, 2001, through December 31, 2024, all local exchange carriers subject to part 36 rules shall apportion costs to the jurisdictions using their study area and/or exchange specific jurisdictional allocation factors calculated during the twelve-month period ending December 31, 2000, for each of the categories/sub-categories as specified herein. Direct assignment of private line service costs between jurisdictions shall be updated annually. Other direct assignment of investment, expenses, revenues or taxes between jurisdictions shall be updated annually. Local exchange carriers that invest in telecommunications plant categories during the period July 1, 2001, through December 31, 2024, for which it had no separations allocation factors for the twelve-month period ending December 31, 2000, shall apportion that investment among the jurisdictions in accordance with the separations procedures in effect as of December 31, 2000, for the duration of the freeze.

Attachment H

HC2022LR018

Available For Public Use

McDonough Telephone Cooperative

Limited Review Performance Audit on

Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules

Prepared For:

Universal Service Administrative Company

September 30, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

September 30, 2022

Teleshia Delmar, Vice President of Audit and Assurance
Universal Service Administrative Company
700 12th St NW, Suite 900
Washington, DC 20005

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of McDonough Telephone Cooperative (Beneficiary or Cooperative), study area code **341047** for disbursements made from the federal Universal High Cost Program (HCP) during the for the year ended December 31, 2020. CLA conducted the audit field work from March 1, 2022 to September 30, 2022.

We 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 we 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 our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

Certain information may have been omitted from this report concerning communications with USAC Management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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.

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP
Greenbelt, MD
September 30, 2022

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery			
	HCL	CAF BLS	CAF ICC	Total
Finding #1: 47 C.F.R. § 32.2681(a)(4)(2018) –Improper Accounting for Leases. The Beneficiary did not properly account for vehicle lease transactions with affiliate.	$29,527	$19,866	$0	$49,393
Finding #2: 47 C.F.R. § 51.917{d)(l)(v) (2018) – Inaccurate Revenue Reporting: Transitional Intrastate Access Service Revenue. The Beneficiary underreported Transitional Intrastate Access Service Revenue.	$0	$0	$4,236	$4,236
Finding #3: 47 C.F.R. § 54.7(a)(2018) – Improper Inclusion for Non-Regulated Amounts and Support Not Used for Intended Purpose of Federal Universal Support. The Beneficiary included non-regulated costs in its cost study balances reported for High Cost program purpose.	$9,530	($22)	$0	$9,508
Finding #4: 47 C.F.R. § 32.2000(g)(2)(2018) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary reported incorrect depreciation expense amounts in its reporting for High Cost program purposes.	($2,608)	($2,803)	$0	($5,411)
Total	**$36,449**	**$17,041**	**$4,236**	**$57,726**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for Study Area Code (SAC) 341047 and will seek recovery from the Beneficiary for the High Cost Program support amount noted in the chart below.

Regarding Finding #1, USAC Management requires the Beneficiary to be placed on a Corrective Action Plan (C.A.P.) to address lack of documentation and data retention procedures. As part of the C.A.P., the Beneficiary must report to High Cost Management, within 60 days of the date of the Recovery Letter (to be issued by USAC's High Cost Division), how it plans to improve its documentation processes.

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)	CAF BLS (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$29,527	$19,866	-	$49,393	N/A
Finding #2	-	-	$4,236	$4,236	N/A
Finding #3	$9,530	($22)	-	$9,508	N/A
Finding #4	($2,608)	($2,803)	-	($5,411)	N/A
Total	**$36,449**	**$17,041**	**$4,236**	**$57,726**	**N/A**

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Illinois that serves over 3,700 subscribers. McDonough Telephone Cooperative, Inc. has direct ownership of MTC Communications, Inc., which is a wholly-owned subsidiary of McDonough Telephone Cooperative, Inc. McDonough Telephone Cooperative, through its subsidiary, MTC Communications, Inc. is a 1/8th member in Western Illinois Video, LLC, a 1/8th member in Western Illinois Networks, LLC, a 9.997% member in Illinois Network Alliance, LLC, and 6.939% member in Illinois Telecom Investments, LLC. Western Illinois Video, LLC, is a 3.861% member in Illinois Network Alliance, LLC. Video, CLEC and Internet are provided through separate wholly owned subsidiary companies. Each company has their own set of general ledger accounts and related financial statements. Camera systems and commercial and residential sales and service are provided through MTC Communications, Inc. MTC Communications, Inc. has its own set of revenue and expense accounts.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the FCC pursuant to 47 C.F.R. § 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program (HCP), a component of the USF, ensures that consumers in rural areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. During the relevant audit period, the following support mechanisms were available to cost-based telecommunications carriers:

- High Cost Loop support (HCL): HCL is available for rural companies operating in services areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Rate-of-return Incumbent Local Exchange Carrier (ILEC) Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loop Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVE

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

SCOPE

The following chart summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$3,483,222
HCL	2018	2020	$1,453,776
CAF ICC	2017 – 2019	2020	$305,796
Total			**$5,242,794**

PROCEDURES

We performed the following procedures:

A. High Cost Program Support Amount

We 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

We obtained an understanding of the Beneficiary’s processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

C. Fixed Assets

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

D. Operating Expenses

CLA obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. We obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. We obtained and examined general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses.

E. Revenues

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. § 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36 and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 32.2681(a)(4) (2018) – Improper Accounting for Leases.

CONDITION

CLA obtained and examined documentation, including the Beneficiary's vehicle lease documentation, to determine whether the Beneficiary accounted for its' affiliate lease transactions in accordance with the FCC Rules. CLA determined that the Beneficiary did not properly account for vehicles leased from its affiliates and in use during the 2018 data period.

The lease agreements signed between the Beneficiary (lessee) and its affiliate (lessor) for all 16 (one vehicle returned and lease payments removed by the Beneficiary in the 2018 data period) leased vehicles specified a lease term of thirty-six (36) months, after which the vehicles would be returned to the lessor.[1] However, the agreements also included a provision for Beneficiary to continue using the vehicles on a month-to-month basis. Based on our review of documentation and discussion with the Beneficiary, CLA established that the Beneficiary continued using each vehicle after the expiration of the thirty-six-month term, causing the lives of the leases to be substantially equal to the estimated useful life of the leased property of five years.[2] Because the leases were substantially equal to the estimated useful life of the leased property, the Beneficiary should have capitalized the assets pursuant to 47 C.F.R § 32.2681(a)(3)[3] instead of accounting for the assets as operating leases by booking lease expense instead of capitalizing the assets an accounting for them in the Beneficiary's asset and asset related accounts, as described in 47 C.F.R. § 36.2(c).[4]

To calculate the monthly lease payment, the lessor used the lease calculator tool on the website LeaseGuide.com. The Beneficiary used the net book cost (total cost of the vehicle less the residual value) and the allowed rate of return. The total vehicle lease payments for the year amounted to $132,811. However, 47 C.F.R § 32.27(b)(3) requires that such transfer of asset between affiliates with annual value less than $500,000 to be priced at the net book cost (NBC). The NBC is then spread evenly over the term of the lease. Therefore, the monthly lease was not correctly calculated in accordance with the Rule.[5]

CLA recalculated the total amount of lease payments made by the Beneficiary for the 15 vehicles in use prior to the start of 2018 and compared this to the NBC of each vehicle. It was determined that the lessor had fully recovered and exceeded the total purchase cost for 10 of the 15 vehicles. For the 10 vehicles where lease payments exceeded the NBC prior to the 2018 data period, the Beneficiary should not have included in the costs submitted for support to the High Cost program. The Beneficiary cleared vehicle lease expenses to regulated and non-regulated amounts.

CLA calculated the present value (PV) of the lease payments for the remaining five vehicles in use for which the NBC had not been fully recovered and noted that the PV was higher than 90% of the purchase costs. Because the lease payments exceeded 90% or more of the fair value of leased property, the Beneficiary should have capitalized the assets pursuant to 47 C.F.R § 32.2681(a)(4) instead of accounting for the assets as operating leases.[6]

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[1] Vehicle lease agreements provided by the Beneficiary on August 2, 2022.

[2] See Internal Revenue Service Code for Property and Equipment accounting at https://www.irs.gov/irm/part1/irm_01-035-006.

[3] *See* 47 C.F.R § 32.2681(a)(3).

[4] *See* 47 C.F.R § 36.2(c)

[5] See 47 C.F.R § 32.27(b)(3).

[6] See 47 C.F.R § 32.2681(a)(4).

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

Account	Part 64 Reported Amount (A)	Understatement / (Overstated) Amount (B)	Part 64 Revised Amount (A+B)
Telecommunications Plant Under Construction (Account 2003)	$750,870	($30,450)	$720,420
Land & Support Assets (Acct 2110)	$3,147,535	$176,866	$3,324,401
Accumulated Depreciation (Acct 3100-2110)	$2,487,232	$72,217	$2,559,449
Depreciation Expense (Acct 6561)	$1,917,133	$25,573	$1,942,706
COE Switching Expense (Acct 6210)	$49,085	($2,326)	$46,759
COE Transmission Expense (Acct 6230)	$808,387	($58,523)	$749,864
Cable & Wire Facilities Expense (Acct 6410)	$472,002	($32,846)	$439,156

CLA concludes that the Beneficiary did not record leased assets and expense transactions in the proper amounts and to the proper general ledger accounts, therefore not accurately reporting cost study balances for High Cost purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly capitalized leased assets from its affiliate that are substantial in amount, substantially equal to the estimated useful life of the leased property, or the lease payments equal to or exceed 90% of the fair value of the leased property. The Beneficiary informed CLA that it did not correctly calculate the leased vehicles' useful life and did not review perform annual reviews for potential updates to the estimated useful life.[7]

EFFECT

CLA calculated the monetary effect for this finding by adding $176,866 to Land and Support Assets as well as $72,217 and $25,573 in related Accumulated Depreciation and Depreciation Expense from the Beneficiary's High Cost program filings. Additionally, CLA subtracted $30,450 from Telecommunications Plan Under Construction as well as $2,326, $58,523, and $32,846 from COE Switching, COE Transmission, and Cable and Wire Facilities Expenses, respectively.[8] CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$19,866
HCL	$29,527
CAF ICC	-
Total	**$49,393**

[7] Beneficiary response to Summary of Exceptions, received October 11, 2022.

[8] The amounts subtracted represent the total vehicle lease payments included in the Beneficiary's cost study after non-regulated adjustments. Since the Beneficiary clears vehicle expenses to plant and construction accounts, the amounts were removed proportionally from the vehicle clearing destination accounts.

RECOMMENDATION

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

CLA recommends that the Beneficiary develop procedures and an adequate review process to ensure it properly determines the type of lease, and account for leases as capitalized from its affiliate that are substantial in amount, substantially equal to the estimated useful life of the leased property, or the lease payments equal to or exceed 90% of the fair value of the leased property to ensure accurate reporting for High Cost purposes. In addition, it is recommended that the Beneficiary develop procedures and a review process to ensure that it values affiliate transaction in accordance with the rules.

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

BENEFICIARY RESPONSE

The Cooperative agrees with the finding. These vehicle leases were cancelled mid-2020 after new Accounting management joined the Cooperative and found them to be problematic, so significantly prior to inception of the USAC audit. Starting in January of 2022, the Cooperative started utilizing a lease computation spreadsheet purchased from Big 4 public accounting firm BKD (now Forvis) to more accurately and quickly compute lease computations in according with ASC 842 accounting guidance, including classification within the software portal for appropriate capitalization requirements. This will also facilitate appropriate classification for Cost Study purposes, and these spreadsheets are also independently reviewed by the public accounting firm for lease classification. The Cooperative will continue to utilize Cost Study Consultants to review intercompany lease agreements.

Finding #2: 47 C.F.R. § 51.917(d) – Inaccurate Revenue Reporting: Transitional Intrastate Access Service Revenues.

CONDITION

CLA obtained and examined documentation, including the Beneficiary's billing reports, general ledger, and NECA CAF ICC True-Up statements, to determine whether the Beneficiary accurately reported payments earned for providing intrastate terminating switched access services. CLA determined that the Beneficiary did not report accurate transitional Intrastate access service revenues. The methodology for calculating these revenues is in 47 C.F.R. § 51.917(d).[9]

The 2060L report filed by the Beneficiary included the appropriate Local Access and Transport Area (LATA) revenue for switched access but omitted Intrastate Terminating Carrier Access Billing System (CABS) reportable income that was erroneously booked to the special access revenue account. Hence, the amounts on the Beneficiary's 2060L report were incorrect for all months. The differences noted in our review are summarized below:

[9] See 47 C.F.R. § 51.917(d).

Revenue	Program Year July 2017 – June 2018 (A)	Program Year July 2018 – June 2019 (B)
Intrastate Revenue Reported	$7,522	$4,208
Billing Report/GL Intrastate Revenue	$11,553	$8,648
Intrastate Revenue Difference	**$4,031**	**$4,440**

As the Beneficiary's supporting documentation (e.g., billing reports and general ledger) did not agree to the amounts reported by the Beneficiary on their CAF ICC filing to USAC, CLA concludes that the Beneficiary did not accurately report revenues for intrastate terminating switched access services.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate intrastate revenues for High Cost program purposes. The Beneficiary confirmed that a reconciliation of switched access revenue was not being performed, and account numbers were not thoroughly reviewed until correction in calendar year 2020.[10]

EFFECT

CLA calculated the monetary effect of this finding by adding $4,031 and $4,440 to the Beneficiary's Intrastate Revenue reported for Program Years July 2017 – June 2018 and July 2018 – June 2019, respectively. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery[11]
CAF BLS	$0
HCL	$0
CAF ICC	$4,236
Total	$4,236

RECOMMENDATION

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

The Beneficiary must ensure that it has an adequate system in place to report data for CAF ICC purposes. The Beneficiary must implement and perform a perform a thorough and timely review process to reconcile revenues before being reported for High Cost purposes.

The Beneficiary may learn more about 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/.

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[10] Beneficiary response to Summary of Exceptions, received October 11, 2022.

[11] The monetary effect listed only represents disbursements during calendar year 2020. CLA notes at least $4,236 in improper disbursements were made during prior and subsequent periods. Additional amounts may have been overstated in prior periods due to the same error.

BENEFICIARY RESPONSE

The Cooperative agrees with the finding. To prevent these issues in the future, the Cooperative has established a reconciliation process and modified general ledger (GL) accounting practices to make locating any future discrepancies possible real-time. Today, the intrastate terminating switched access services data is now being reconciled to the GL and regulatory filings on a monthly basis.

Finding #3: 47 C.F.R. § 54.7(a) – Improper Inclusion for Non-Regulated Amounts and Support Not Used for Intended Purpose of Federal Universal Support.

CONDITION

CLA obtained and examined the Beneficiary's general ledger for the twelve months ended December 31, 2018, and supporting documentation such as invoices, contracts, and receipts to determine whether the Beneficiary excluded non-regulated costs from the account balances, in accordance with FCC Order 15-133, and further clarified by FCC order 18-29, as reported for High Cost program purposes. CLA considered non-statistical sample of 24 expense transactions totaling $257,836. In addition, CLA also examined the documentation to determine whether High Cost program support was only used for the provision, maintenance, and upgrading of facilities and services for which the support is intended. CLA identified two transactions that were either wholly or partly non-regulated costs. Planning Expense in the amount of $3,075 had a non-allowable portion of $1,688 for related youth activities, and External Relations had cost of $6,000 which is included in the 35 transactions listed below. Per FCC Rules, federal universal service support shall only be used for the provision, maintenance, and upgrading of facilities and services for which the support is intended.[12] This support cannot be used for youth activities and external relations, among other prohibitions.[13]

Utilizing data analytical tools, CLA also selected for analysis a non-statistical sample of 87 general ledger transactions totaling $71,228 for the twelve months ended December 31, 2018. CLA identified 35 transactions totaling $19,152 that should have been fully excluded and 6 transactions totaling $15,903 that included portions that should have been excluded. The transactions were related to items including but not limited to Telecoms conferences ($8,327), Christmas expenses ($5,153), events sponsorship ($3,798), ice scrapers ($1,550), company parties ($1,010), and subscription fees ($519) that were not necessary for the provision, maintenance, and upgrading of facilities and should therefore have been removed during the Beneficiary's cost study process.

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

Account	As Reported in Part 64 (A)	Unallowable Expenses (B)	Recalculated Balance (A)+(B)
Executive Expense (Account 6710)	$626,637	$(14,370)	$612,267
General Admin. Expense (Account 6720)	$552,463	$(17,340)	$535,123

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12 *See* 47 C.F.R. § 54.7(a).

13 *See* All Universal Service High Cost Recipients are Reminded that Support Must be Used for its Intended Purpose, WC Docket No. 10-90, WC Docket No. 14-58, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (2018) *and* Connect America Fund, et al., WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 (2018).

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to identify and exclude all non-regulated expenses from the amounts reported for High Cost program purposes. The Beneficiary informed CLA that it identified and excluded some, but not all, of the non-regulated expenses identified as part of its cost study adjustment process.[14]

EFFECT

CLA calculated the monetary effect of this finding by subtracting $14,370 and $17,340 from the Executive and General Administrative Expense accounts, respectively, from the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($22)[15]
HCL	$9,530
CAF ICC	-
Total	$9,508

RECOMMENDATION

CLA recommends that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary must develop and implement policies, procedures, and processes to ensure that costs not necessary for the provision, maintenance, and upgrading of facilities are excluded from amounts submitted for High Cost program purposes.

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

BENEFICIARY RESPONSE

The Cooperative agrees with the finding. To prevent future errors, the following steps were put into place. New excludable cost study general ledger (GL) accounts were set up to post all excludable expenses to eliminate error of omitting expenses when going manually through the GL. AP now assigns all excludable items to these new GL accounts, which are then combined for exclusion during the cost study preparation. In addition, there is now a two-layer review of AP invoices and GL accounts by non-AP accounting staff prior to the expense hitting the GL. A formal review list and list of what should be excluded has been made and is provided to new hires for training purposes.

Finding #4: 47 C.F.R. § 32.2000(g)(2): Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

CONDITION

CLA obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for High Cost program purposes. 47 C.F.R. § 32.2000(g)(2)(iii) requires that depreciation is performed using the average of each month's

[14] The Beneficiary provided CLA a list of General Ledger expenses excluded from High Cost filing, on 8/12/2022.

[15] The impact to the required revenue requirement is negligible as removal of expense does not change the Beneficiary's position of exceeding the corporate operations expense limitation.

beginning and ending balances for each asset account.[16] CLA determined that while the Beneficiary's depreciation calculations were being performed in accordance with the mandated methodology, that for some asset accounts with remaining depreciable balances, no calculation was being performed at all.

CLA summarizes the differences between the recalculated twelve months of depreciation expense using the average of the beginning and ending balance of each month and the amount submitted for High Cost program support are presented below:

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balances (B)	Difference (B-A)
Accumulated Depreciation (Account 2230 – Central Office Transmission)	$6,655,115	$6,678,003	$22,888
Accumulated Depreciation (Account 2410 – Cable and Wire Facilities)	$14,821,508	$14,812,714	($8,794)
Depreciation Expense (Account 6561 – Central Office Transmission)	$258,668	$281,556	$22,888
Depreciation Expense (Account 6561 – Cable and Wire Facilities)	$1,467,275	$1,458,481	($8,794)

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to correctly calculate depreciation expense and accumulated depreciation. The Beneficiary explained, it was discovered during the company's financial statement audit, that an issue with the circuit equipment account occurred because of a system malfunction which caused it to stop calculating depreciation for the account[17].

EFFECT

CLA calculated the monetary effect of this finding by adding $22,888 to Central Office Transmission Accumulated Depreciation and Depreciation Expense and subtracting $8,794 from Cable and Wire Facilities Accumulated Depreciation and Depreciation Expense to the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($2,803)
HCL	($2,608)
CAF ICC	-
Total	**$(5,411)**

[16] *See* 47 C.F.R. § 32.2000(g)(2)(iii) (2018).

[17] Per email from Holly Fecht, VP/CFO, received on June 9, 2022.

RECOMMENDATION

No recovery is recommended for this finding as the finding is an underpayment of support. We recommend that the Beneficiary implements an adequate system to properly calculate depreciation expense and accumulated depreciation reported for High Cost Program purposes.

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

BENEFICIARY RESPONSE

The Cooperative agrees with the finding. A process has been set up to review depreciation posted against financial audit materiality. These amounts would remain as stated due to being lower than financial audit materiality levels.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.27(b)(3) (2018)	**Transactions with affiliates**. … (b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost. … (3) ***Threshold***. For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going-forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed $500,000, the asset(s) shall be recorded at net book cost.
#1	47 C.F.R. § 32.2681(a)(4) (2018)	**Finance Leases** (a) This account shall include all property acquired under a finance lease. A lease qualifies as a finance lease when one or more of the following criteria is met: … (4) At the inception of the lease, the present value of the minimum lease payments, excluding that portion of the payments representing executory costs to be paid by the lessor, including any profit thereon, equals or exceeds 90% or more of the fair value of the leased property. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.

#1	47 C.F.R. § 36.2(c) (2018)	**Fundamental principles underlying procedures.** … (c) Property rented to affiliates, if not substantial in amount, is included as used property of the owning company with the associated revenues and expenses treated consistently: Also, such property rented from affiliates is not included with the used property of the company making the separations; the rent paid is included in its expenses. If substantial in amount, the following treatment is applied: (1) In the case of property rented to affiliates, the property and related expenses and rent revenues are excluded from the telephone operations of the owning company, and (2) In the case of property rented from affiliates, the property and related expenses are included with, and the rent expenses are excluded from, the telephone operations of the company making the separation.
#2	47 C.F.R. § 51.917(d)(2018)	(d) ***Eligible Recovery for Rate-of-Return Carriers***. (47) Notwithstanding any other provision of the Commission's rules, a Rate-of-Return Carrier may recover the amounts specified in this paragraph through the mechanisms described in paragraphs © and (f) of this section.i) Beginning July 1, 2012, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less:A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2012, using the target methodology required by § 51.705. (47) (ii) Beginning July 1, 2013, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less:A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909;

		(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2013, using the target methodology required by § 51.705. (47) (iii) Beginning July 1, 2014, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less:A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909 (including the reduction in intrastate End Office Switched Access Service rates), adjusted to reflect the True-Up Adjustment for Transitional Intrastate Access Service for the year beginning July 1, 2012; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2014, using the target methodology required by § 51.705, adjusted to reflect the True-Up Adjustment for Reciprocal Compensation for the year beginning July 1, 2012. (D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012, multiplied by negative one. (iv) Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year. (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. (vi) If a Rate-of-Return Carrier receives or makes reciprocal compensation payments after the period used to measure the adjustments to reflect the differences between estimated and actual net reciprocal compensation revenues, it shall treat such amounts as actual revenues or payments in the year the payment is received or made and shall reflect this as an additional adjustment for that year. (vii) 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. (47) (viii)A) If a Rate-of-Return Carrier in any tariff period underestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), and thus has too much Eligible Recovery in that tariff period, it shall refund the amount of any such True-up Revenues or True-up Revenues for Access Recovery Charge that are not offset by the Rate-of-Return Carrier's Eligible Recovery (calculated before including the true-up amounts in the Eligible Recovery calculation) in the true-up tariff period to the Administrator by August 1 following the date of the Rate-of-Return Carrier's annual access tariff filing. (B) If a Rate-of-Return Carrier in any tariff period receives too little Eligible Recovery because it overestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), which True-up Revenues and True-up Revenues for Access Recovery Charge it cannot recover in the true-up tariff period because the Rate-of-Return Carrier has a negative Eligible Recovery in the true-up tariff period (before calculating the true-up amount in the Eligible

		Recovery calculation), the Rate-of-Return Carrier shall treat the unrecoverable true-up amount as its Eligible Recovery for the true-up tariff period.
#3	47 C.F.R. § 54.7(a)(2018)	**Intended use of federal universal service support** A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended
#3	*All Universal Service High Cost Recipients are Reminded that Support Must be Used for its Intended Purpose, WC Docket No. 10-90, WC Docket No. 14-58, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (2018).*	Under federal law, high-cost support provided to an ETC must be used "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." … The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol; • Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; • Political contributions; • Charitable donations; • Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and • Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages.
#3	*Connect America Fund, et al.*, WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking,	19. Personal Expenses.—Initially, we codify the existing prohibition on recovery from the high-cost program for personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for personal travel, personal vehicles, housing, such as rent, mortgages, or housing allowances, childcare, employee gifts, and entertainment-related expenses including food and beverage, regardless of whether such expenses are paid directly by the individual or indirectly by the carrier in the

	FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 (2018).	form of allowances or gifts. Personal expenses are clearly not used for the provision of supported services and thus may not be recovered through high-cost support. Furthermore, we caution recipients of high-cost support that recovering these types of expenses from high-cost support may constitute outright fraud, waste, and abuse on the Fund, subjecting employees, executives, and board members to personal civil and criminal liability. 20. The Commission already explicitly excludes personal travel expenses from high-cost support recovery. Personal travel expenses include airfare, car rentals, gas, lodging, and meals for personal use. Commenters overwhelmingly agree that personal travel is unrelated to the provision of a supported service and may not be recovered through high-cost support. In response to concerns raised by commenters, we find that, in contrast to personal travel expenses, reasonable work-related travel expenses are recoverable to the extent they are used for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended. For example, if an ETC's technician travels to repair a supported facility and such travel requires overnight accommodation, the ETC may recover that employee's reasonable hotel costs. … 25. It is undisputed that gifts to employees may not be recovered through high-cost support. Gifts to employees are unrelated to the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended, and therefore are excluded from high-cost support. 26. Entertainment and food and beverage expenses, including but not limited to expenses incurred for meals to celebrate personal events, such as weddings, births, or retirements, are explicitly not recoverable through high-cost support. Some commenters agree that entertainment expenses in particular have not been recoverable in the past. Other commenters disagree, claiming that recovering entertainment expenses incurred for "client or vendor meetings, or attendance at board meetings" is a "common and accepted practice." Some commenters maintain that they should be able to include food and beverage and entertainment expenses related to annual meetings, employee recognition, parties or picnics because such events build morale and improve service quality. The question is whether these expenses are used only for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended—not whether they are beneficial, desirable or common practice. Because these expenses do not meet our interpretation of what the statutory standard requires, we exclude them from

		high-cost support. As noted above, we acknowledge that meals provided during business-related travel may qualify as a reasonable per diem travel expense recoverable from high-cost support consistent with our interpretation of section 254(e). … 28. *Expenses Unrelated To Operations*.—We next codify the existing prohibitions on recovering support for expenses unrelated to operations—including political contributions, charitable donations, scholarships, membership fees and dues in clubs and organizations, sponsorships of conferences or community events, and penalties or fines for statutory or regulatory violations, penalties or fees for late payments on debt, loans, or other payments—from high-cost support. ETCs calculate high-cost universal support, including high cost loop support (HCLS) and Connect America Fund Broadband Loop Support (CAF BLS) (formerly interstate common line support (ICLS)), based on their eligible capital investment and operating expenses pursuant to section 54.303. Expenses unrelated to operations, however, are not currently included in these high-cost support calculations. Instead, under our current rules, "nonoperating expenses"—including political contributions, contributions for charitable, social, or community welfare purposes, membership fees and dues in social, service and recreational or athletic clubs and organizations, and penalties and fines on account of violations of statutes—are recorded in Account 7300, presumed excluded from the costs of service in setting rates, and not included in high-cost support calculations. Expenses unrelated to operations have historically not been recoverable from high-cost support because by definition these expenses are not operational in nature and are ancillary to core business objectives. Expenses must fall within the scope of the statutory requirement that support be used "only for the provision, maintenance, and upgrading of facilities and services for which support is intended." Below we find that various expenses unrelated to operations, including various Account 7300 nonoperating expenses, do not satisfy this standard and, thus, may not be recovered from high-cost support. 31. Charitable donations and scholarships are expenses unrelated to operations that may not be recovered from high-cost support. We recognize the benefits charitable donations provide to the community, as raised by multiple commenters. However, charitable donations are unrelated to the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended.

		32. Membership fees and dues in clubs and organizations, including social, service, and recreational or athletic clubs and organizations, as well as trade associations and organizations that provide professional or trade certifications such as state bar associations, are expenses unrelated to operations excluded from high-cost support. Commenters agree that these expenses related to social and recreational clubs and organizations are already excluded from high-cost support recovery. But those same and other commenters also argue that membership fees and dues in trade associations, chambers of commerce, state bar associations and professional certifications for specialized employees should be recoverable. We recognize the educational and training benefits that trade associations provide and that membership in chambers of commerce may help stimulate business. However, as other commenters acknowledge, a function of many of these organizations is advocacy on behalf of their members for the purpose of influencing public policy which is not used for the provision, maintenance, and upgrading of facilities and services for which support is intended. Just as ETCs may not recover lobbying expenses under our rules, similarly, they may not recover membership fees in organizations that engage in lobbying. Further, professional affiliations or certifications such as state bar associations, accounting associations, or other professional groups may facilitate general corporate functions but are not used only for the provision of supported facilities and services.
#4	47 C.F.R. § 32.2000(g)(2) (2018)	***Depreciation charges***. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average

		monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.
#4	47 C.F.R. § 32.3100 (2018)	**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.

Attachment I

HC2022LR025

The Siskiyou Telephone Company

Limited Review Performance Audit on

Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules

Prepared For:

Universal Service Administrative Company

October 22, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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EXECUTIVE SUMMARY

October 22, 2022

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of The Siskiyou Telephone Company (Beneficiary), study area code **542339** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from March 10, 2022, to October 22, 2022.

We 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 we 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 our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

Certain information may have been omitted from this report concerning communications with USAC Management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
October 22, 2022

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified one finding, which are summarized below.

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R § 36.152(a)(1) and 47 C.F.R. § 36.153 – Miscategorized Cable and Wire Facilities – Beneficiary miscategorized cable and wire facilities due to inaccurate inputs.	$5,019	$18,736	-	$23,755

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 542339, 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 BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$5,019	$18,736	-	$23,755	N/A
Total	$5,019	$18,736	-	$23,755	N/A

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Siskiyou and Humboldt Counties, California. The Beneficiary and its sister company, Siskiyou Long Distance, Inc., are wholly owned subsidiaries of parent company, Siskiyou Communications Inc. Additionally, the Beneficiary wholly owns its subsidiary, Golden Bear Broadband, LLC. The Beneficiary and its affiliates also provide non-regulated services including customer premise equipment sales, complex wire maintenance, payphone's, property rental, duplicate billing, internet access, and long-distance services.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program (HCP), a component of the USF, ensures that consumers in rural areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. During the relevant audit period, the following support mechanisms were available to cost-based telecommunications carriers:

- High Cost Loop support (HCL): HCL is available for rural companies operating in services areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Rate-of-return ILEC Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loops Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

OBJECTIVE

The objective of our performance audit was to determine the Beneficiary compliance with the FCC Rules.

SCOPE

The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Date Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$3,896,922
High Cost Loop (HCL)	2018-2019	2020	$5,110,462
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$594,114
		Total	**$9,601,498**

PROCEDURES

We performed the following procedures:

A. High Cost Program Support Amount

We 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

We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

C. Fixed Assets

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

D. Operating Expenses

CLA obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. We obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. We obtained and examined general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses.

E. Revenues

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. Section 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36 and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R § 36.152(a)(1)-(3) and 47 C.F.R. § 36.153 – Miscategorized Cable and Wire Facilities

CONDITION

CLA obtained and examined the Beneficiary's general ledger, continuing property records and cost study allocation for Cable and Wire Facilities (CWF) equipment to determine whether the Beneficiary's cost study amounts were accurately reported for High Cost Program purposes for the year ended December 31, 2018. CLA verified the Beneficiary utilized the residual method to categorize its Category 1 CWF assets. The residual method consists of identifying all Category 2, 3, and 4 interexchange CWF assets and deducting these assets from the total CWF balance to determine what should be reported as the Category 1 CWF balance.[1] The Beneficiary must only apportion to Category 1 CWF the costs for facilities that are used to connect an exchange's central offices to subscriber premises in that same exchange.[2]

Upon examination of the Beneficiary's interexchange route allocation documentation to determine whether interexchange route costs were accurately calculated, CLA noted that three interexchange routes cable size and footage did not agree to Beneficiary's network map. As such, CLA verified the actual cable size and footage, and performed a recalculation of the interexchange route categorization reflecting the verified cable footage.[3] The table below summarizes the interexchange route categorization variances between the Beneficiary's original categorization and CLA's recalculated categorization:

CWF Category	CWF Category Descriptions Original as Reported	Original as Reported	CLA Recalculation	Variance Over/(Under) Reported
1	Total Exchange Line	$70,984,468	$70,873,760	$110,708
2	Wideband and Exch Trunk	$1,520,517	$1,518,263	$2,254
3.22	IX - Wideband DSL	$1,578,714	$1,572,329	$6,385
3.22	IX - Wideband	$9,148,592	$9,248,325	($99,733)
3.23	IX - Joint	$2,319,370	$2,338,984	($19,614)
4A	Host/Remote Wats Closed	-	-	-
4B	Host/Remote - Other	-	-	-
	Grand Total	**$85,551,661**	**$85,551,661**	**$0**

Because the Beneficiary did not categorize its CWF costs accurately, CLA concludes that for High Cost Program purposes, the Beneficiary inaccurately reported cost study balances for CWF categories as noted in the table above.

[1] *See* 47 C.F.R. § 36.152(a)(1).
[2] *See id.*; 47 C.F.R. 47 § 36.154(a).
[3] *See* 47 C.F.R. § 36.153.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary informed CLA that the issue occurred due to including taps that were not part of mainline distribution in the interexchange fiber footage and omitted a work order that should have been included in the interexchange fiber footages.[4]

EFFECT

CLA calculated the monetary effect of this finding by subtracting the amounts of $110,710, $2,254, and $6,385 from CWF categories 1, 2, and 3.22 (IX – Wideband DSL), respectively. Additionally, CLA added the amounts of $99,733 and $19,614 to categories 3.22 (IX – Wideband) and 3.23, respectively, to the Beneficiaries High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$5,019
HCL	$18,736
CAF ICC	-
Total	**$23,755**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. Additionally, CLA recommends the Beneficiary implement policies and procedures to ensure that accurate data inputs are utilized during its cable and wire facilities study.

BENEFICIARY RESPONSE

We appreciate this being brought to our attention. We do agree that the fiber footages that were originally reported were incorrect, and we have corrected them. We have also put internal procedures in place to prevent this from happening in the future.

[4] Beneficiary's response to the Summary of Exceptions, received November 15, 2022.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R § 36.152(a)(1)-(3) (2018)	***Categories of Cable and Wire Facilities (C&WF).*** (a) C&WF are basically divided between exchange and interexchange. Exchange C&WF consists of the following categories: (1) Exchange Line C&WF *Excluding Wideband* - Category 1 - This category includes C&W facilities between local central offices and subscriber premises used for message telephone, private line, local channels, and for circuits between control terminals and radio stations providing very high frequency maritime service or urban or highway mobile service. (2) *Wideband and* Exchange Trunk C&WF - Category 2 - This category includes all wideband, including Exchange Line Wideband and C&WF between local central offices and Wideband facilities. It also includes C&WF between central offices or other switching points used by any common carrier for interlocal trunks wholly within an exchange or metropolitan service area, interlocal trunks with one or both terminals outside a metropolitan service area carrying some exchange traffic, toll connecting trunks, tandem trunks principally carrying exchange traffic, the exchange trunk portion of WATS access lines, the exchange trunk portion of private line local channels, and the exchange trunk portion of circuits between control terminals and radio stations providing very high frequency maritime service or urban or highway mobile service. (3) The procedures for apportioning the cost of exchange cable and wire facilities among the operations are set forth in §§ 36.154 and 36.155.
#1	47 C.F.R § 36.153 (2018)	***Assignment of Cable and Wire Facilities (C&WF) to categories.*** (a) Cable consists of: Aerial cable, underground cable, buried cable, submarine cable, deep sea cable and intrabuilding network cable. Where an entire cable or aerial wire is assignable to one category, its cost and quantity are, where practicable, directly assigned. (1) Cable. (i) There are two basic methods for assigning the cost of cable to the various categories. Both of them are on the

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

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

		The cost of wire used for providing circuits directly assignable to a category is assigned to that category. The cost of wire used for providing circuit facilities jointly used for exchange and interexchange lines is assigned to categories on the basis of the relative number of circuit kilometers involved. (c) Poles and Antenna Supporting Structures. (1) In the assignment of these costs, anchors, guys, crossarms, antenna supporting structure, and right-of-way are included with the poles. (2) Poles. (i) The cost of poles is assigned to categories based on the ratio of the cost of poles to the total cost of aerial wire and aerial cable. (d) Conduit Systems. (1) The cost of conduit systems is assigned to categories on the basis of the assignment of the cost of underground cable.

Attachment J

HC2022LR028

West River Telecommunications Cooperative

Limited Review Performance Audit on

Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules

Prepared For:

Universal Service Administrative Company

November 18, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

November 18, 2022

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of West River Telecommunications Cooperative (Beneficiary), study area code **381637** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from February 10, 2022, to November 18, 2022.

We 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 we 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 our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
November 18, 2022

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified two findings, which are summarized below.

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R. § 64.901(b) Improper Inclusion of Non-Regulated Asset – The Beneficiary did not accurately remove nonregulated assets from its High Cost Program filings.	$1,952	$33,232	$0	$35,184
Finding #2: 47 C.F.R. § 32.2000(g)(2) Inaccurate depreciation of assets – The Beneficiary inaccurately calculated depreciation expense for Land and Support Asset accounts.	($41,184)	$0	$0	($41,184)
Total	($39,232)	$33,232	$0	($6,000)

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for Study Area Code (SAC) 381637, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with Federal Communications Commission (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)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$1,952	$33,232	-	$35,184	N/A
Finding #2	($41,184)	-	-	($41,184)	N/A
Total	**($39,232)**	**$33,232**	**-**	**($6,000)**	

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

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides service to over 11,000 subscribers in western North Dakota and north central South Dakota. The Beneficiary has a wholly owned subsidiary Mobridge Telephone Company which has a separate cost study from the Beneficiary. Additionally, the Beneficiary has a minority stake (less than 10%) in Dakota Carrier Network and South Dakota Network. The Beneficiary, along with its affiliates, also provide non-regulated services including broadband, security systems, long-distance service and customer premise equipment.

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 federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income, have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.[1]

The High Cost Program, a component of the USF, ensures that consumers in rural areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. During the relevant audit period, the following support mechanisms were available to cost-based telecommunications carriers:

- High Cost Loop support (HCL): HCL is available for rural companies operating in services areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Rate-of-return Incumbent Local Exchange Carrier (ILEC) Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loop Support (CAF BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

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[1] *See* 47 C.F.R § 54.702(c).

OBJECTIVES, SCOPE, AND PROCEDURES

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

SCOPE
The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$6,977,592
HCL	2019	2020	$4,025,065
CAF ICC	2017-2019	2020	$1,125,348
		Total	**$12,128,005**

PROCEDURES
We performed the following procedures:

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

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

D. Operating Expenses
We obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. We obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. We obtained and examined general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses.

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. § 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and compared these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs, and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 64.901(b): Improper Inclusion of Non-Regulated Assets

CONDITION

CLA obtained and examined the Beneficiary's Cable and Wire Facilities (CWF) route allocation to determine whether the allocation of the investment was assigned to the proper category and accurately reported for Beneficiary High Cost Program purposes. Based on examination of the Beneficiary's CWF route allocation, CLA identified a non-regulated cost study adjustment of $565,551 for the removal of deregulated and leased fibers. A review of the supporting documentation for the non-regulated adjustment determined that the allocation of fiber was inaccurate due to spares being directly allocated to CWF Category 1, instead of being allocated over all in use categories. Per the Rules, outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment.[2] Thus the spare fibers should have been allocated upon the usage of the investment instead of directly assigned to CWF Category 1.

CLA recalculated the non-regulated adjustment by allocating spare fibers to each category of lit fiber based on the ratio of each category to the total lit fiber and recalculated the route allocation. The recalculation has been summarized below:

Account	Beneficiary's Cost Study Adjustment (A)	Variance (B)	Recalculated (A+B)
Non-regulated investment (Acct 2410)	$565,551	$52,226	$617,777
Non-regulated for Accumulated Depreciation (Acct 3100-2410)	$183,772	$16,970	$200,742
Non-regulated CWF Depreciation Expense (Acct 6561-2410)	$17,299	$1,598	$18,897
Non-regulated CWF Expenses (Acct 6410)	$8,629	$797	$9,426
Total	$775,251	$71,591	$846,842

Because the Beneficiary did not properly allocate spares and improperly included non-regulated amounts in its High Cost filing, CLA concludes that the Beneficiary did not report accurate cable and wire account balances.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly allocate spares and exclude non-regulated amounts from the amounts reported for High Cost Program purposes.

[2] *See* 47 C.F.R. § 64.901(b)

EFFECT

CLA calculated the monetary effect of this finding by subtracting $52,226 from the Beneficiaries Cable and Wire Facilities (CWF), $16,970 from CWF Accumulated Depreciation, $1,598 from CWF Depreciation expense, and $797 from CWF expenses from the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from the High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$1,952
HCL	$33,232
CAF ICC	-
Total	**$35,184**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. The Beneficiary must properly allocate asset costs and separate the regulated costs from non-regulated costs reported for High Cost Program purposes.

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

BENEFICIARY RESPONSE

The Beneficiary will change the current allocation of non-regulated spare fibers from a one to one ratio to allocating spare fibers based on usage within the segment.

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

CONDITION

CLA obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for High Cost program purposes. The Beneficiary's monthly depreciation is calculated by averaging beginning of the month and end of the month general ledger balances for each asset account and applying 1/12 of annual depreciation rate. However, the Beneficiary appears to not have calculated depreciation based on the total GL balance (mass asset method), but by individual assets, where older asset balances were not being included on the monthly calculation. Based on the fact that material variances were noted when performing recalculations, CLA recalculated depreciation expense for the Beneficiary's Land and Support assets (Acct 2110) for the entire 20180 data. The differences between the recalculated twelve months of depreciation expense using the average of the beginning and ending balance of each month and the amount submitted for High Cost program support are presented below:

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balances (B)	Difference (B-A)
Accumulated Depreciation (Account 2110 – Land and Support Assets)	$7,779,931	$7,989,448	$209,517
Depreciation Expense (Account 6561 – Land and Support Assets)	$683,952	$893,469	$209,517

CAUSE

The Beneficiary did not have an adequate procedure in place for properly calculating monthly depreciation to report accurately for High Cost Program purposes.

EFFECT

FCC rules require Beneficiaries to accurately report accumulated depreciation and depreciation expense amounts.[3] CLA calculated the monetary effect of this finding by adding $209,517 to Land and Support Assets Accumulated Depreciation amount reported in the Part 64 cost study. CLA also calculated the monetary effect by adding $209,517 to the Land and Support Depreciation Expense amount reported in the Part 64 cost study. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($41,184)
HCL	-
CAF ICC	-
Total	**($41,184)**

[3] *See* 47 C.F.R. § 32.2000(g)(2).

RECOMMENDATION

CLA recommends that USAC Management does not seek recovery as the monetary effect is an underpayment. We recommend that the Beneficiary implements an adequate system to properly calculate depreciation expense and accumulated depreciation reported for High Cost Program purposes.

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

BENEFICIARY RESPONSE

The Beneficiary will change its methodology to begin using Mass Asset Depreciation for Account 2110 – Support Assets going forward. Assets still in service beyond their depreciable lives will not be removed from the depreciable balance and depreciation calculation.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 64.901(b) (2018)	**Allocation of costs**. (b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. (1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service. (2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. (3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.

		(4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.
#1	47 C.F.R. § 51.319(a)(6) (2018)	***Dark fiber loops.*** An incumbent LEC is not required to provide requesting telecommunications carriers with access to a dark fiber loop on an unbundled basis. Dark fiber is fiber within an existing fiber optic cable that has not yet been activated through optronics to render it capable of carrying communications services.
#2	47 C.F.R. § 32.2000(g)(2) (2018)	***Depreciation charges***. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or

		portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.

Attachment K

HC2022LR012

Available For Public Use

Foothills Rural Telephone Cooperative Inc.

Limited Review Performance Audit on

Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules

Prepared For:

Universal Service Administrative Company

November 15, 2022

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CLAconnect.com

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EXECUTIVE SUMMARY

November 15, 2022

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Foothills Rural Telephone Cooperative Inc. (Beneficiary), study area code **260406** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from March 10, 2022 to November 15, 2022.

We 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 we 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 our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

Certain information may have been omitted from this report concerning communications with USAC Management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
November 15, 2022

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified four findings, which are summarized below.

Audit Results	Monetary Effect				Recommended Recovery
	CAF BLS	HCL	CAF ICC	Total	
Finding #1: 47 C.F.R. §§ 32.2(a),(b) - Misclassified Assets and Expenses - Beneficiary improperly expensed transactions that should have been capitalized.	$22,769	$80,796	-	$103,565	$10,565
Finding #2: 47 C.F.R. § 64.901(b) Improper Allocation of Non-Regulated Assets Beneficiary improperly allocated the costs related to spare fibers directly to category 1 investment.	$9,122	$18,751	-	$27,873	$27,873
Finding #3: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service Support Beneficiary included expenses not related to the provision, maintenance, and upgrade of telecommunications facilities.	$9,174	$14,232	-	$23,406	$23,406
Finding #4: 47 C.F.R. § 32.2000(g)(2) - Inaccurate depreciation of assets – Beneficiary used incorrect asset balances to calculate depreciation expense.	($191,254)	($301,516)	-	($492,770)	$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 260406, 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)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$22,769	$80,796	-	$103,565	N/A
Finding #2	$9,122	$18,751	-	$27,873	N/A
Finding #3	$9,174	$14,232	-	$23,406	N/A
Finding #4	($191,254)	($301,516)	-	($492,770)	N/A
Total	($150,189)	($187,737)	-	($337,926)	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 recovery action is $0.

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides service to over 12,000 subscribers in eastern Kentucky. The Beneficiary wholly owns its subsidiary, Cellular Services LLC (CSLLC). Additionally, CSLLC owns a 20% ownership stake in Eastern Kentucky Networks LLC. The Beneficiary along with its affiliates provide internet and non-regulated services including video and long-distance services.

PROGRAM OVERVIEW

The Universal Service Administrative Company (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 federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program, a component of the USF, ensures that consumers in rural areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. During the relevant audit period, the following support mechanisms were available to cost-based telecommunications carriers:

- High Cost Loop support (HCL): HCL is available for rural companies operating in services areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Rate-of-return Incumbent Local Exchange Carrier (ILEC) Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loop Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

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

SCOPE
The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$4,435,392
HCL	2018-2019	2020	$2,725,245
CAF ICC	2017-2019	2020	$1,987,158
		Total	**$9,147,795**

PROCEDURES
We performed the following procedures:

A. High Cost Program Support Amount

We 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

We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

C. Fixed Assets

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

D. Operating Expenses

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

E. Revenues

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. § 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs, and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 32.2(a),(b): Misclassified Assets & Expenses

CONDITION

CLA obtained and examined the Beneficiary's general ledger, as well as invoices and other supporting documentation for the twelve months ended December 31, 2018, to determine whether the Beneficiary recorded its expenses in the proper general ledger account for High Cost program purposes. CLA selected a non-statistical sample of 22 expense transactions[1] totaling $556,209 and determined that the Beneficiary did not properly classify five sampled transactions, as described below.

The Beneficiary purchased and expensed four separate orders of circuit equipment in the amounts of $40,529, $71,406, $35,857, and $40,551, respectively. As the equipment received were significant in amount with useful life greater than one year, CLA determined these items should have been capitalized and included in the Beneficiary's CPR.

The Beneficiary also recorded an expense of $48,210 for clearing of road for the right-of-way of a new project. Since the clearing was related to a new build, this cost should have been capitalized as part of the cost of the project, instead of being expensed.

As a result of these misclassified expenses, the Beneficiary overstated or understated its account balances reported in its High Cost program filings as follows:

Account	As reported in Part 64 Cost Study (A)	Understatement/ (Overstatement)[2] (B)	Recalculated Balance (A) + (B)
COE Transmission (Acct 2230)	$16,954,619	$187,129	$17,141,748
Cable & Wire Facilities (CWF) (Acct 2410)	$87,794,131	$47,984	$87,842,115
Accumulated Depreciation, COE Transmission (Acct 3100-2230)	$9,942,146	$10,007	$9,952,153
Accumulated Depreciation, CWF (Acct 3100-2410)	$53,571,884	$1,680	$53,573,564
COE Depreciation Expense (Acct 6561-2230)	$1,536,073	$10,007	$1,546,080
CWF Depreciation Expense (Acct 6561-2410)	$3,472,957	$1,680	$3,474,637
COE Transmission Expense (Acct 6230)	$2,719,553	($187,129)	$2,532,424
CWF Expense (Acct 6410)	$1,671,674	($47,984)	$1,623,690

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1 Sampling methodology is derived from FAM, which allows for sample sizes on an entity wide basis. This sample size is for one particular testing area of the entity and takes into consideration items such as sampling method, assessment of compliance risk and the particular accounts effect on high cost support.

2 Differences in the totals stated in the condition and the chart are due to non-regulated percentages of .6446% for COE and .468% for CWF that were applied to costs in the submitted High Cost data.

CAUSE

The Beneficiary did not have an adequate system in place to accurately classify transactions to the proper Part 32 account. The Beneficiary explained that as a result of FCC 17-15, 47 C.F.R. §§ 32.2000(a)(4) that addressed expense limits was removed from Part 32 as of January 1, 2018, and that the Beneficiary had not updated its methodology to reflect the rule change. Additionally, the Beneficiary stated the right-of-way clearing was expensed by accident.[3]

EFFECT

CLA calculated the monetary effect of this finding by subtracting expenses of $187,129 and $47,984 from COE Transmission Expense and Cable and Wire Facility Expense, respectively, and adding those respective amounts to the COE Transmission and Cable & Wire Facilities asset balances in the Beneficiary's High Cost program filings. Additionally, CLA calculated and added the accumulated depreciation and depreciation expenses for both COE Transmission and Cable and Wire Facilities based on when each sampled transaction was placed into service. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$22,769
HCL	$80,796
CAF ICC	-
Total	**$103,565**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implements policies and procedures to ensure transactions are classified to the appropriate Part 32 accounts. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

"The Beneficiary acknowledges and agrees that the invoice for clearing of road for the right-of-way of a new project was inadvertently expensed instead of capitalized. However, the other four invoices were for Uninterruptible Power Supply (UPS) units that have a unit cost of $130 each, which is below the Beneficiary's capitalization threshold. The beneficiary will review its procedures to ensure transactions are properly classified."

CLA RESPONSE

The Beneficiary states that because the unit price of the items purchased were below its capitalization threshold of $1,200, the items purchased were correctly expensed. FCC 17-15 removed 47 C.F.R. §§ 32.2000(a)(4) which removed the expense limits applicable from Part 32 prior to the beginning of the audit period, thus the capitalization policy was no longer in compliance with the rules. In review of the Beneficiary's CPR, CLA identified several assets capitalized with

[3] Beneficiary's response to the Summary of Exceptions, received November 29, 2022.

unit costs significantly below the $130 unit cost, demonstrating the Beneficiary inconsistently applied its capitalization policy. Even though the cost per unit was only $130, the Beneficiary should have taken into consideration the fact that these were four bulk purchases that totaled over $30,000 each. The equipment received was both significant in amount and had a useful life greater than one year. Thus, CLA determined these items should have been capitalized and included in the Beneficiary's CPR.

Finding #2: 47 C.F.R. § 64.901(b) Improper Allocation of Non-Regulated Assets

CONDITION

CLA obtained and examined the Beneficiary's Cable and Wire Facilities (CWF) route allocation to determine whether the allocation of the investment was assigned to the proper category[4] and accurately reported for Beneficiary High Cost Program purposes. Based on examination of the Beneficiary's CWF route allocation, CLA identified a non-regulated cost study adjustment of $579,217 for the removal of deregulated and leased fibers. A review of the supporting documentation for the non-regulated adjustment determined that the allocation of fiber was inaccurate due to spares being directly allocated to CWF Category 1. Per the Rules, outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment.[5] Thus the spare fibers should have been allocated upon the usage of the investment instead of directly assigned to CWF Category 1.

CLA recalculated the non-regulated adjustment by allocating spare fibers to each category of lit fiber based on ratio of each category to the total lit fiber and recalculated the route allocation. The recalculation has been summarized below:

Table 1: Recalculation of Non-Regulated Cable and Wire Facilities

Account	Beneficiary's Plant Cost Study Adjustment #2 (A)	Recalculated (B)	Variance (B-A)
Non-regulated investment (Acct 2410)	$579,217	$798,037	$218,820
Non-regulated for Accumulated Depreciation (Acct 3100-2410)	$352,690	$486,955	$134,265
Non-regulated CWF Depreciation Expense (Acct 6561-2410)	$23,090	$31,570	$8,480
Non-regulated CWF Expenses (Acct 6410)	$10,934	$15,194	$4,260
Total	**$965,931**	**$1,331,756**	**$365,825**

4 See 47 C.F.R § 36.153(a)(1)(i)(2018).

5 See 47 C.F.R. § 64.901(b)(2018).

Table 2: Impact to Cable and Wire Facilities Categorization			
Period	Part 36 Cost Study As Reported (A)	CLA Audited Balance (B)	Understatement/ (Overstatement) (B-A)
Category 1	$81,297,499	$81,061,619	($235,880)
Category 2.1 – Exchange Trunk CWF -EAS	$8,161	$49,199	$41,038
Category 2.2 – Data Only Loop	$5,181,246	$5,152,268	($28,978)
Category 2.4 – Exchange Trunk CWF - WB	$575,694	$572,475	($3,219)
Category 3 – Interexchange & CWF	$1,636	$9,855	$8,219
Total	**$87,064,236**	**$86,845,416**	**($218,820)**

Because the Beneficiary improperly included non-regulated amounts in its High Cost filing, CLA concludes that the Beneficiary did not report accurate cable and wire account balances. The Beneficiary must separate the regulated costs from non-regulated costs reported for High Cost Program purposes.[6]

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude non-regulated amounts from the amounts reported for High Cost Program purposes. The Beneficiary informed CLA that dark fiber is intended to be used for current and future fiber to the home customers in order to keep up with the FCC broadband obligations and future broadband needs.[7]

EFFECT

CLA calculated the monetary effect of this finding by subtracting $218,820 from the Beneficiaries Cable and Wire Facilities (CWF), $134,265 from CWF Accumulated Depreciation, $8,480 from CWF Depreciation expense and $4,260 from CWF expenses from the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$ 9,122
HCL	$18,751
CAF ICC	-
Total	**$27,873**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. Additionally, we recommend the Beneficiary implement policies and procedures to ensure that spare fiber is allocated based upon the relative regulated and non-regulated usage of the investment. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

6 Id.

7 Beneficiary's response to the Summary of Exceptions, received November 29, 2022.

BENEFICIARY RESPONSE

"The Beneficiary acknowledges that spare fiber was assigned to Category 1 with a portion then allocated to Category 2.2 for data only loop and Category 2.4 for wideband loop. The beneficiary's spare fiber is intended for current and future fiber to the home customers to meet its broadband buildout obligations and additional capacity for future subscriber broadband needs. In addition, the beneficiary continues to convert customers to broadband only which reduces the need for additional fiber to be used for Toll and EAS services. The Beneficiary does not agree that spare fiber should be allocated to leased. The beneficiary charges the lessee per fiber being used. The specific fibers being leased are removed from the cost study because the Beneficiary is compensated through the lease arrangement. The beneficiary does not charge the lessee for additional spare fiber; therefore, the Beneficiary does not agree that additional fibers should be excluded as leased. The beneficiary does not offer, nor does it plan to offer leased dark fibers as a service that is offered to the general public, and as such, does not intend to utilize any of the spare fibers for leased services."

CLA RESPONSE

Outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment.[8] As such, the "Spare" cable and wire facilities should have been allocated based on usage within each section analysis of the cable and wire study. CLA noted within the study that leased fiber represents non-regulated usage of investment and subsequently determined the Beneficiary should allocate a portion of its spare fiber as non-regulated. Therefore, the Beneficiary should have compared the portion of leased fiber (non-regulated) and the percentage of regulated fiber and allocated the spares accordingly. CLA's position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service Support

<u>CONDITION</u>

CLA obtained and examined the Beneficiary's general ledger transactions, CPRs and cost study adjustments documentation to determine whether High Cost Program support was only used for the provision, maintenance, or upgrading of facilities and services for which the support is intended. Through data analysis, CLA found where the Beneficiary did not exclude 14 expense transactions totaling $34,790 related to legal retainer, retirement, penalty charges, memberships, dues, subscriptions, donations, and coffee expenses that were not necessary for the provision, maintenance, and upgrading of facilities.[9]

CLA clarifies that while FCC 15-133 and FCC 18-29 were released during the audit's data period, the FCC rule that was effective during the audit period states that, "a carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."[10] Thus, the Beneficiary should have removed the entire value of these unallowable transactions during its cost study process.

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[8] See 47 C.F.R. § 64.901(b)

[9] *See FCC Reminds ETCs of High-Cost Support Requirements*, WC Docket No. 10-90, Public Notice, FCC 15-133, 30 FCC Rcd 11821, 11822 (2015). *See also* 47 U.S.C. § 254(e).

[10] See 47 CFR § 54.7 (a).

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

Account	As Reported in Part 64 (A)	Unallowable Expenses (B)	Recalculated Balance (A) + (B)
General Admin. Expense (Account 6720)	$904,501	$(34,790)	$869,711

Because the Beneficiary's reported balances included the 14 disallowed transactions, CLA concludes that the Beneficiary's High Cost program support was not used for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude unallowable expenses from the amounts reported for High Cost Program purposes. The Beneficiary explained that FCC 18-29 was codified and effective May 31, 2018, and in response to the publication of FCC 18-29, every effort was made to identify and remove expenses identified in the order. The Beneficiary acknowledged that some expenses were inadvertently included.[11]

EFFECT

CLA calculated the monetary effect of this finding by subtracting $34,790 from the General Administrative Expense from the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$9,174
HCL	$14,232
CAF ICC	-
Total	**$23,406**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. Additionally, we recommend the Beneficiary implement policies and procedures to ensure only expenses related to the provision, maintenance, and upgrade of telecom facilities are included in account balances submitted for High Cost program support. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

[11] Beneficiary's response to the Summary of Exceptions, received 11/29/22.

BENEFICIARY RESPONSE

"FCC 18-29 provided clarification and guidance on expenses that were unallowable. This order was codified and effective May 31, 2018. In response to the publication of FCC 18-29, the Beneficiary made every effort to identify and remove expenses identified in the order at that time. The Beneficiary acknowledges that the noted expenses were inadvertently included during this review period. The Beneficiary has since created subaccounts to identify and track unallowable expenses. In addition, employees have been further trained on the proper accounting procedures."

Finding #4: 47 C.F.R. § 32.2000(g)(2): Inaccurate Depreciation of Assets

CONDITION

CLA obtained and examined the Beneficiary's depreciation, amortization and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for High Cost program purposes. CLA determined that the Beneficiary's depreciation calculation for 2018 was inaccurate.

The Beneficiary manually calculates depreciation expense every month. The Rule requires that depreciation is performed using the average of each month's beginning and ending balances for each asset account. Instead, the Beneficiary computed depreciation charges using each month's closing balances only. Additionally, two central office transmission subaccounts and one cable and wire facilities subaccount were set to depreciate using the vintage years method. The differences between the recalculated twelve months of depreciation expense using the average of the beginning and ending balance of each month and the amount submitted for High Cost program support are presented below:

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balances (B)	Difference (B-A)
Accumulated Depreciation (Account 2230 – Central Office Transmission)	$9,942,146	$10,971,501	$1,029,355
Accumulated Depreciation (Account 2410 – Cable and Wire Facilities)	$53,571,884	$53,682,060	$ 110,176
Depreciation Expense (Account 6561 – Central Office Transmission)	$1,536,073	$2,565,428	$1,029,355
Depreciation Expense (Account 6561 – Cable and Wire Facilities)	$3,472,957	$3,583,133	$ 110,176

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate depreciation expense for High Cost Program purposes. According to the Beneficiary, the inaccurate depreciation was due to the Beneficiary's accounting software not being set to depreciate based on average balances as well as certain assets accounts set up to depreciate assets based on vintage years.[12]

EFFECT

CLA calculated the monetary effect of this finding by adding $1,029,355 to Central Office Transmission Accumulated Depreciation and Depreciation Expense, and $110,176 to Cable and Wire Facilities Accumulated Depreciation and Depreciation Expense to the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($191,254)
HCL	($301,516)
CAF ICC	-
Total	**$(492,770)**[13]

RECOMMENDATION

No recovery is recommended for this finding as the finding is an underpayment of support. We recommend that the Beneficiary implements an adequate system to properly calculate depreciation expense and accumulated depreciation reported for High Cost Program purposes. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

"The Beneficiary acknowledges that its accounting software depreciated based on closing balances during the period under review. In addition, Accounts 2232.10, 2232.12, and 2421.20 were depreciating on vintage year causing the under depreciation of these accounts. The Beneficiary has converted to a new accounting software and has corrected the depreciation calculation. The Beneficiary will add an additional review process to verify that depreciation is calculating correctly."

[12] Beneficiary's response to the Summary of Exceptions, received November 29, 2022.

[13] The monetary effect listed only represents disbursements during calendar year 2020. CLA notes that it is likely that inaccurate disbursements were made during prior and subsequent periods due to related depreciation errors.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2(a), (b) (2018)	(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure. (b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers.
#2	47 C.F.R. § 64.901(b) (2018)	**Allocation of costs**. (b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. (1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission

		pursuant to section 252(e) and credited to the regulated revenue account for that service. (2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. (3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities. (4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.
#2	47 C.F.R. § (36.153(a)(1)(i)	*(1) Cable.* *(i) There are two basic methods for assigning the cost of cable to the various categories. Both of them are on the basis of conductor cross section. The methods are as follows:*

		(A) By section of cable, uniform as to makeup and relative use by categories. From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved, for each category. The corresponding percentages of use, or reservation, are applied to the cost of the section of cable, i.e., sheath meters times unit cost per meter, to obtain the cost assignable to each category. *(B) By using equivalent pair kilometers, i.e., pair kilometers expressed in terms of equivalent gauge. From an analysis of cable engineering and assignment records, determine the equivalent pair kilometers in use for each category by type of facility, e.g., quadded, paired. The equivalent pair kilometers are then divided by a cable fill factor to obtain the equivalent pair kilometers in plant. The total equivalent pair kilometers in plant assigned to each category is summarized by type of facility, e.g., quadded and paired, and priced at appropriate average unit costs per equivalent pair kilometer in plant. If desired, this study may be made in terms of circuit kilometers rather than physical pair kilometers, with average cost and fill data consistent with the basis of the facilities kilometer count.*
#3	47 C.F.R. § 54.7(a) (2018).	A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.
#3	*FCC Reminds ETCs of High-Cost Support Requirements*, WC Docket No. 10-90, Public Notice, FCC 15-133, 30 FCC Rcd 11821, 11822 (2015)	Under federal law, high-cost support provided to an ETC must be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. The following is a nonexhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol; • Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; • Political contributions;

		• Charitable donations; • Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments; • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and • Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages.
#3	In the Matter of Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, WC Docket No. 10-90, WC Docket No. 14-58, WC Docket No. 07-135, CC Docket No. 01-92, para. 10(2018)	In this Report and Order, we adopt reforms to ensure that high-cost universal service support provided to eligible telecommunications carriers (ETCs) is used only for the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended pursuant to section 254(e) of the Act. We also adopt reforms to ensure that the investments and expenses that rate-of-return carriers recover through interstate rates are reasonable pursuant to section 201(b) of the Act. Our findings here do not prevent rate-of return carriers from incurring any particular investment or expense, but simply clarify the extent to which investments and expenses may be recovered through federal high-cost support and interstate rates. The rules we adopt are prospective, but the underlying obligations are preexisting and many of the rules we adopt today codify existing precedent. Our rules and the used and useful standard have long governed ETCs and rate-of-return carriers' behavior. Nothing we do in this Report and Order is intended to undermine our precedent.
#4	47 C.F.R. § 32.2000(g)(2) (2018)	***Depreciation charges***. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net

		book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.

Summary of Low Income Support Mechanism Beneficiary Audit Reports Released: April 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action[1]	Entity Disagreement
Burlington Telecom **Attachment A**	3	• No significant findings.	$19,549	$3,330	$3,247	N
Telrite Corporation **Attachment B**	1	• No significant findings.	$31,046,654	$0	$0	N
Total	**4**		**$31,066,203**	**$3,330**	**$3,247**	

[1] The monetary effect includes overlapping recovery; thus, the USAC Management recovery amount is less than the monetary effect.

Attachment A

LI2021LR004

Available For Public Use

Burlington Telecom

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

USAC Audit No. LI2021LR004

TABLE OF CONTENTS

EXECUTIVE SUMMARY

December 27, 2022

Charles Callahan
Controller
Burlington Telecom
200 Church St, Suite 200
Burlington, VT 05401

Dear Mr. Callahan:

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

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

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

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

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

Sincerely,

Jeanette Santana Gonzales

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

cc: Radha Sekar, USAC Chief Executive Officer
Tim O'Brien, USAC Vice President, Lifeline Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Exceptions[1] (B)	Recommended Recovery (A) - (B)
Finding #1: 47 C.F.R. § 54.405(e)(4) and § 54.410(f) – Improper De-Enrollment Process: Failure to Recertify The Beneficiary did not de-enroll subscribers that were not recertified by the annual recertification due date in 2019.	$2,461	$0	$2,461
Finding #2: 47 C.F.R. § 54.417(a) – Lack of or Inadequate Documentation: Subscriber Certification and Eligibility Documentation The Beneficiary did not provide adequate certification and eligibility documentation.	$564	$0	$564
Finding #3: 47 C.F.R. § 54.410(b)(1)(i) and § 54.410(d) – Improper Certification Completion Subscribers failed to properly complete certain fields on their subscriber certification forms.	$305	$83	$222
Total Monetary Effect	**$3,330**	**$83**	**$3,247**

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

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE, AND PROCEDURES

PURPOSE

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

SCOPE

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

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
149013	Vermont	Lifeline	2116	$19,549

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

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claim System

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

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

- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

B. Program Eligibility, Certification and Recertification Process
AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 58 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households
AAD obtained an understanding of the Beneficiary's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Beneficiary to comply with the Independent Economic Household (IEH) requirements.

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

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

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

G. Enrollment Representative Accountability
AAD obtained an understanding of the Beneficiary's enrollment representative process relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.405(e)(4) and § 54.410(f) – Improper De-Enrollment Process: Failure to Recertify

CONDITION

AAD obtained and examined the Beneficiary's FCC Form 555 for 2018 and the Lifeline Claims System (LCS) submissions for the 12 months period ended on December 31, 2019 to determine whether the Beneficiary de-enrolled subscribers who failed to recertify the continued eligibility. AAD determined that the Beneficiary did not de-enroll 36 subscribers that were not recertified by the annual recertification due date in 2019. Therefore, the Beneficiary improperly claimed Lifeline support in 2019 for 36 subscribers who were not recertified by the Beneficiary annually since the last recertification in 2018.[2] AAD summarized and calculated the months of improper Lifeline support claimed by the Beneficiary for these subscribers in 2019 below:

Improper Lifeline Support Claimed in 2019					
	Number of Subscribers (A)	**Quantity of Months[3] (B)**	**Benefit Rate (C)**	**Total (A*B*C)**
	1	1	$9.25	$9.25
	2	4	$9.25	$74.00
	10	5	$9.25	$462.50
	23	9	$9.25	$1,914.75
Total	**36**		**Grand Total**	**$2,460.50**

Because the Beneficiary failed to recertify its subscribers annually and failed to de-enroll the subscribers, AAD concludes that the 36 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have adequate policies, procedures, and controls in place to identify subscribers requiring recertification or de-enrollment. The Beneficiary stated that the personnel responsible at the time was an interim controller who is no longer an employee, and the current process may not be the same as the reporting process in 2018.[4]

EFFECT

The monetary effect of this finding is $2,461. AAD calculated the monetary effect of this finding by determining the number of months the Beneficiary claimed Lifeline support for the subscribers not recertified annually and claimed during 2019 from January 1, 2019, to one month prior to the recertification application found or de-enrollment date. AAD summarizes the results below:

---

[2] *See* 47 C.F.R. §§ 54.405(e)(4) and 54.410(f)(1).

[3] AAD excluded the month in which recertification commenced or de-enrollment occurred within the year.

[4] *See* Beneficiary response to the audit inquiries, received on May 27, 2021.

Fund Type	Monetary Effect and Recommended Recovery[5]
Lifeline (Non-Tribal)	$2,461

RECOMMENDATION

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

The Beneficiary must implement policies, procedures, and controls to ensure that it complies with the FCC Rules. USAC designed the National Verifier system to ensure that Lifeline subscribers' eligibility is checked annually for continued eligibility after December 2019, and only allows subscribers active in NLAD to be included in LCS submissions. In addition, the Beneficiary may learn more about Lifeline program requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

> Burlington Telecom accepts the audit findings and proposed recovery amount of $2,461. We would like to note that the company changed ownership in March of 2019 after the audit period. The entire management team and those that handled the Lifeline process are no longer at Burlington Telecom which presented challenges in providing the requested support. With the change in ownership and management, new policies, procedures, and controls are in place along with the move to National Verifier.

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

CONDITION

AAD obtained and examined subscriber certification forms, and eligibility documentation for a non-statistical sample of 23 new subscribers enrolled prior to the launch of the National Verifier (NV) to determine whether the subscribers were eligible to receive Lifeline program support claimed by the Beneficiary. AAD determined that the Beneficiary did not provide adequate documentation for seven of the 23 subscribers, as detailed below:

[5] Rounded to the nearest whole dollar.

Description of Issues	Number of Affected Forms
Lack of Documentation	
Certification form not provided	2
Copy of subscriber's proof of eligibility not provided	3
Documentation to confirm Third Party Identity Verification (TPIV)[6] not provided	1
Inadequate Documentation	
Complete certification form not provided. Form pages missing were: missing home address, how the subscriber qualifies for Lifeline, initials of disclosures, and signature	1
Complete certification form not provided. Form pages missing were: how the subscriber qualifies for Lifeline, initials of disclosures, and signature	1
Errors	
Documentation provided to confirm TPIV[7] did not match the information reviewed in NLAD	1
Total No. of Affected Subscribers[8]	**7**

Because the Beneficiary did not provide adequate certification and eligibility documentation,[9] AAD concludes that seven subscribers were not eligible to receive Lifeline program support claimed by the Beneficiary.[10]

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of certification forms and proof of eligibility documentation. The Beneficiary indicated that the inadequate documentation was due to user error or forms not being scanned to the customer account.[11]

EFFECT

The monetary effect of this finding is $564. AAD calculated the monetary effect of this finding by determining the number of months the Beneficiary claimed Lifeline support for the seven subscribers subsequent to the subscriber's Lifeline start date noted in NLAD until December 31, 2019. AAD identified a total of 61 months. AAD multiplied 61 months by the Lifeline support amount reimbursed to the Beneficiary ($9.25) rounded to the nearest whole dollar. AAD summarized the results below:

[6] A TPIV check occurs during the application process if the Lifeline program cannot confirm the identity of the subscriber based upon the data provided by the subscriber (i.e., first and last name, address, date of birth, or last four of the social security number). To clear the TPIV check, the Beneficiary must collect documentation from the subscriber to resolve the error message and retain copies of what documentation was examined.
[7] *Id.*
[8] Documentation for some subscribers may contain multiple exceptions. Therefore, one certification may be included in multiple rows in the table above.
[9] *See* Beneficiary response to audit inquiries received on April 29, May 13, and May 27, 2021.
[10] *See* 47 C.F.R. §§ 54.407(d)(2), 54.410(d), 54.410(b)(1)(i)(B), and 54.404(b)(11).
[11] *See* Beneficiary response to audit inquiries received on May 7, May 20, and May 27, 2021.

Support Type	Monetary Effect and Recommended Recovery
Lifeline (Non-Tribal)	$564

RECOMMENDATION

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

The Beneficiary must implement policies, procedures and controls to ensure that it complies with the FCC Rules. USAC designed the National Verifier system to ensure that subscribers who enroll in the Lifeline program properly complete the Lifeline Application Form after the system has been launched in the state. In addition, the Beneficiary may learn more about Lifeline subscriber certification record-keeping requirements on USAC's website at https://www.usac.org/lifeline/rules-and-requirements/record-keeping/

BENEFICIARY RESPONSE

Burlington Telecom accepts the audit findings and proposed recovery amount of $564. We would like to note that the company changed ownership in March of 2019 after the audit period. The entire management team and those that handled the Lifeline process are no longer at Burlington Telecom which presented challenges in providing the requested support. With the change in ownership and management, new policies, procedures, and controls are in place along with the move to National Verifier.

Finding #3: 47 C.F.R. § 54.410(b)(1)(i) and § 54.410(d) – Improper Certification Completion

CONDITION

AAD obtained and examined certification forms, and proof of eligibility documentation for a non-statistical sample of 23 new subscribers enrolled prior to the launch of the National Verifier (NV) to determine whether the subscribers were eligible to receive Lifeline program support claimed by the Beneficiary. For three of the 23 samples, the subscribers failed to properly complete certain fields on their subscriber certification forms as detailed below:

Errors[12]	Number of Affected Forms
Certification form dated subsequent to Lifeline start date	1
Date of birth (DOB) on the certification form did not agree to the eligible subscriber DOB in the National Lifeline Accountability Database (NLAD)	1
Failure to use the Universal Lifeline application form (FCC 5629) subsequent to July 1, 2018[13]	1
Total	**3**

[12] *See* 47 C.F.R. § 54.407(d)(2).

[13] *See* 47 C.F.R. § 54.410(d); *Wireline Competition Bureau Provides Guidance on Universal Forms for the Lifeline Program*, Public Notice, WC Docket No. 11-42, DA 18-161 (rel. Feb. 20, 2018).

Because the subscribers did not properly complete the certification forms,[14] AAD concludes that three subscribers were not eligible to receive Lifeline program support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have an adequate system in place for collecting Lifeline certification forms and eligibility documentation and verifying that they were properly and accurately completed. The Beneficiary indicated that this was due to a user error.[15]

EFFECT

The monetary effect of this finding is $305. AAD calculated the monetary effect of this finding by determining the number of months the Beneficiary claimed Lifeline support for the three subscribers subsequent to the subscriber's Lifeline start date noted in NLAD until December 31, 2019. AAD identified a total of 33 months. AAD multiplied 33 months by the Lifeline support amount reimbursed to the Beneficiary ($9.25) rounded to the nearest whole dollar. AAD summarized the results below:

Support Type	Monetary Effect [A]	Overlap with Finding #2 [B]	Recommended Recovery [A] – [B]
Lifeline (Non-Tribal)	$305	$83	$222

RECOMMENDATION

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

The Beneficiary must implement policies, procedures, and controls to ensure that it complies with the FCC Rules. USAC designed the National Verifier system to ensure that subscribers who enroll in the Lifeline program properly complete the Lifeline Application Form after the system has been launched in the state. In addition, the Beneficiary may learn more about Lifeline subscriber certification record-keeping requirements on USAC's website at https://www.usac.org/lifeline/rules-and-requirements/record-keeping/

BENEFICIARY RESPONSE

> Burlington Telecom accepts the audit findings and proposed recovery amount of $222. We would like to note that the company changed ownership in March of 2019 after the audit period. The entire management team and those that handled the Lifeline process are no longer at Burlington Telecom which presented challenges in providing the requested support. With the change in ownership and management, new policies, procedures, and controls are in place along with the move to National Verifier.

[14] *See* Beneficiary response to audit inquiries received on April 29, May 13, and May 27, 2021.
[15] *See* Beneficiary response to audit inquiries received on May 7, May 20, and May 27, 2021.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.405(e)(4) (2018)	De-enrollment for failure to re-certify. Notwithstanding paragraph (e)(1) of this section, an eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier's attempts to obtain re-certification of the subscriber's continued eligibility as required by §54.410(f); or who fails to provide the annual one-per-household re-certifications as required by §54.410(f). Prior to de-enrolling a subscriber under this paragraph, the eligible telecommunications carrier must notify the subscriber in writing separate from the subscriber's monthly bill, if one is provided, using clear, easily understood language, that failure to respond to the re-certification request will trigger de- enrollment. A subscriber must be given 60 days to respond to recertification efforts. If a subscriber does not respond to the carrier's notice of impending de- enrollment, the carrier must de-enroll the subscriber from Lifeline within five business days after the expiration of the subscriber's time to respond to the re-certification efforts.
#1	47 C.F.R. § 54.410(f)(1) (2018)	All eligible telecommunications carriers must re-certify all subscribers 12 months after the subscriber's service initiation date and every 12 months thereafter, except for subscribers in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the annual re-certification of subscribers' Lifeline eligibility.
#1	47 C.F.R. § 54.410(f) (2018)	Annual eligibility re-certification process. (1) All eligible telecommunications carriers must re-certify all subscribers 12 months after the subscriber's service initiation date and every 12 months thereafter, except for subscribers in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the annual re-certification of subscribers' Lifeline eligibility. (2) In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by: (i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or (ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review. (iii) If the subscriber's program-based or income-based eligibility for Lifeline cannot be determined by accessing one or more state databases containing information regarding enrollment in qualifying assistance programs, then the eligible telecommunications carrier may obtain a signed certification from the subscriber on a form that meets the certification requirements in paragraph (d) of this section.

Finding	Criteria	Description
		If a Federal eligibility recertification form is available, entities enrolling subscribers must use such form to re-certify a qualifying low-income consumer. (iv) In states in which the National Verifier has been implemented, the eligible telecommunications carrier cannot re-certify subscribers not found in the National Verifier by obtaining a certification form from the subscriber. (3) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of a subscriber's Lifeline eligibility, the National Verifier, state Lifeline administrator, or state agency must confirm a subscriber's current eligibility to receive a Lifeline service by: (i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program-based eligibility requirements for Lifeline, and documenting the results of that review; or (ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review. (iii) If the subscriber's eligibility for Lifeline cannot be determined by accessing one or more databases containing information regarding enrollment in qualifying assistance programs, then the National Verifier, state Lifeline administrator, or state agency may obtain a signed certification from the subscriber on a form that meets the certification requirements in paragraph (d) of this section. If a Federal eligibility recertification form is available, entities enrolling subscribers must use such form to recertify a qualifying low-income consumer. (4) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification of subscribers' Lifeline eligibility, the National Verifier, state Lifeline administrator, or other state agency must provide to each eligible telecommunications carrier the results of its annual re-certification efforts with respect to that eligible telecommunications carrier's subscribers. (5) If an eligible telecommunications carrier is unable to re-certify a subscriber or has been notified by the National Verifier, a state Lifeline administrator, or other state agency that it is unable to re-certify a subscriber, the eligible telecommunications carrier must comply with the de-enrollment requirements provided for in §54.405(e)(4).
#2	47 C.F.R. § 54.417(a) (2018)	Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in §§54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from

Finding	Criteria	Description
		that eligible telecommunications carrier, but for no less than the three full preceding calendar years.
#2 & #3	47 C.F.R. § 54.410(d) (2018)	Eligibility certification form. Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program…
#2 & #3	47 C.F.R. § 54.407(d)(2) (2018)	(d) In order to receive universal service support reimbursement, an officer of each eligible telecommunications carrier must certify, as part of each request for reimbursement, that: (2) The eligible telecommunications carrier has obtained valid certification and recertification forms to the extent required under this subpart for each of the subscribers for whom it is seeking reimbursement.
#2	47 C.F.R. § 54.410(b)(1)(i)(B) (2018)	(b) Initial income-based eligibility determination. (1) Except where the National Verifier, state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline using the income-based eligibility criteria provided for in § 54.409(a)(1) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's income-based eligibility using the following procedures: (B) If an eligible telecommunications carrier cannot determine a prospective subscriber's income-based eligibility by accessing income databases, the eligible telecommunications carrier must review documentation that establishes that the prospective subscriber meets the income-eligibility criteria set forth in §54.409(a)(1). Acceptable documentation of income eligibility includes the prior year's state, federal, or Tribal tax return; current income statement from an employer or paycheck stub; a Social Security statement of benefits; a Veterans Administration statement of benefits; a retirement/pension statement of benefits; an Unemployment/ Workers' Compensation statement of benefit; federal or Tribal notice letter of participation in General Assistance; or a divorce decree, child support award, or other official document containing income information. If the prospective subscriber presents documentation of income that does not cover a full year, such as current pay stubs, the prospective subscriber must present the same type of documentation covering three consecutive months within the previous twelve months.

Finding	Criteria	Description
#2	47 C.F.R. § 54.404(b)(11) (2018)	(b) The National Lifeline Accountability Database. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: (11) All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or investigations or to the extent required by NLAD processes, which require, inter alia, verification of eligibility, identity, address, and age.
#3	*Wireline Competition Bureau Provides Guidance on Universal Forms for the Lifeline Program*, Public Notice, WC Docket No. 11-42, DA 18-161 (rel. Feb. 20, 2018).	In this Public Notice, the Wireline Competition Bureau (Bureau) provides guidance regarding the new universal forms for the Lifeline program that consumers and eligible telecommunications carriers (ETCs) must use to verify and recertify subscriber eligibility for the federal Lifeline benefit beginning on July 1, 2018.
#3	47 C.F.R. § 54.410(b)(1)(i) (2018)	(b)(1) Except where the National Verifier, state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline using the income-based eligibility criteria provided for in § 54.409(a)(1) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's income-based eligibility using the following procedures: (A) If an eligible telecommunications carrier can determine a prospective subscriber's income-based eligibility by accessing one or more databases containing information regarding the subscriber's income (''income databases''), the eligible telecommunications carrier must access such income databases and determine whether the prospective subscriber qualifies for Lifeline. (B) If an eligible telecommunications carrier cannot determine a prospective subscriber's income-based eligibility by accessing income databases, the eligible telecommunications carrier must review documentation that establishes that the prospective subscriber meets the income-eligibility criteria set forth in §54.409(a)(1). Acceptable documentation of income eligibility includes the prior year's state, federal, or Tribal tax return; current income statement from an employer or paycheck stub; a Social Security statement of benefits; a Veterans Administration statement of benefits; a retirement/pension statement of benefits; an Unemployment/ Workers' Compensation statement of benefit; federal or Tribal notice letter of participation in General Assistance; or a divorce decree, child support award, or other official document containing income information. If the prospective subscriber presents documentation of

Finding	Criteria	Description
		income that does not cover a full year, such as current pay stubs, the prospective subscriber must present the same type of documentation covering three consecutive months within the previous twelve months.

This concludes the report.

Attachment B

LI2021SR017

Available For Public Use

TELRITE CORPORATION

LI2021SR017

Limited-Scope Performance Audit on Compliance with the Federal Universal Service Fund Lifeline Support Mechanism Rules Related to Usage For the Year Ended December 31, 2019

MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

LI2021SR017

TELRITE CORPORATION

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EXECUTIVE SUMMARY

May 9, 2022

Ms. Teleshia Delmar
Vice President, Audit and Assurance Division
Universal Service Administrative Company (USAC)
700 12th Street, N.W.
Suite 900
Washington, DC 20005

We have audited the compliance of Telrite Corporation (Telrite or the Beneficiary) for all study area codes (SACs) where Telrite claimed subscribers during the year ended December 31, 2019, using the regulations and orders governing the federal Universal Service Fund Low-Income Support Mechanism (also known as the Lifeline Program), relating to usage and non-usage set forth in 47 C.F.R. Part 54 (the Usage Rules). Compliance with the Usage Rules is the responsibility of the Beneficiary's management. Our responsibility is to make a determination regarding the Beneficiary's compliance with the Usage Rules based on our limited-scope performance audit.

We conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding (Finding 2019-001) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Federal Communications Commission's (FCC) Usage Rules that were in effect during the audit period.

This report is intended solely for the use of Universal Service Administrative Company (USAC), the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Mitchell & Titus, LLP

Cc: Radha Sekar, USAC Chief Executive Officer
Tim O'Brien, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION			
Audit Results	**Monetary Effect (A)**	**Overlapping Exceptions (B)**	**Recommended Recovery (A) - (B)**
Finding 2019-001: 47 C.F.R. §54.407(c)(2) – Inaccurate Usage Reporting – Voicemail messages received. The Beneficiary's usage documentation (i.e., call detail records) for one carrier does not separately identify voicemail messages received.	Unknown	—	Unknown
Total Net Monetary Effect	Unknown	N/A	Unknown

USAC MANAGEMENT RESPONSE

USAC will pursue the resolution of this finding with Telrite management. USAC Management will issue a separate memorandum to the Beneficiary to address the audit results.

	Auditor Recommended Recovery	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery and USAC Recovery Action
Finding 2019-001	Unknown	Unknown	—
Total	Unknown	Unknown	

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

This limited-scope performance audit is being submitted under Task Order No. LI008 by and between Mitchell & Titus, LLP (Mitchell Titus) and USAC. The purpose of the audit was to determine whether or not the Beneficiary was compliant with the FCC's Usage Rules for the Lifeline Program for the year ended December 31, 2019 (the audit period).

SCOPE

The following table summarizes the Lifeline Program support that the Beneficiary received based on its Lifeline Claim System (LCS) submissions for the year ended December 31, 2019:

SAC Number	State/Territory	Number of Subscribers	Amount of Lifeline Support
109016	Maine	222	$ 20,262
179021	Pennsylvania	1,327	107,989
189014	Maryland	407	30,731
209016	West Virginia	3,379	311,155
229017	Georgia	9,736	778,540
249021	South Carolina	6,464	533,978
269040	Kentucky	29,908	2,288,895
279040	Louisiana	3,519	281,676
289034	Mississippi	1,048	65,779
309018	Ohio	5,684	450,903
319039	Michigan	2,766	241,447
329018	Indiana	2,084	173,968
339043	Wisconsin	848	57,151
349030	Illinois	9,947	793,567
359138	Iowa	584	50,063
369016	Minnesota	6,468	510,909
389017	North Dakota	109	10,369

TELRITE CORPORATION – LI2021SR017

SAC Number	State/Territory	Number of Subscribers	Amount of Lifeline Support
409016	Arkansas	1,796	157,595
419035	Kansas	283	20,835
429015	Missouri	1,641	142,535
439056	Oklahoma	243	58,446
449077	Texas	4,961	412,462
459019	Arizona	2,673	218,959
469024	Colorado	1,479	127,895
509010	Utah	400	19,808
529019	Washington	975	63,475
549025	California	102,828	7,245,555
559019	Nevada	715	60,093
589008	Rhode Island	699	61,294
639010	Puerto Rico	163,823	15,732,234
649004	Virgin Islands	190	18,086
	Total	367,206	$ 31,046,654

BACKGROUND

Telrite is an American mobile phone service provider. The company reaches those who are often under-served by other providers through a portfolio of companies. Telrite is a subsidiary of Telrite Holdings and offers products and services under several brands. It operates a Lifeline wireless program under its Life Wireless brand.

Telrite operates as a mobile virtual network operator or reseller, holding agreements with some of the United States' largest wireless network operators, including AT&T, T-Mobile, and Claro in Puerto Rico, to provide service. As such, Telrite does not own the wireless network infrastructure over which it provides services to its customers/subscribers.

Life Wireless, located in Covington, Georgia, offers free voice, text, and data service along with a free smart phone to eligible subscribers, in accordance with Lifeline Program's minimum service standards. No fee is charged for Lifeline subscribers. Instead, allocations of voice minutes, text messages and data usage are provided.

Telrite is an eligible telecommunications carrier (ETC) that is approved under the FCC regulations to provide Lifeline services in the states/territories identified in the Scope table above. Telrite provides these subscribers with a free mobile phone and service for voice, text and data use.

During 2019, the non-tribal reimbursement rate was $9.25 per person, per month, with the rate changing to $7.25 for voice only service, effective December 1, 2019. To obtain reimbursement from USAC, the ETCs must verify that each subscriber that is not assessed a monthly fee has met the usage requirements to remain eligible for Lifeline benefits. Our limited-scope performance audit is concerned with the usage processing required to generate the claims for reimbursement to USAC by Telrite for the audit period.

PROCEDURES

We performed the following procedures:

1. Performed a walk-through of the Beneficiary's systems that originates and processes usage events from start-to-end for all types of subscribers;

2. Performed a walk-through of the Beneficiary's billings systems and any other systems or applications used to identify and track usage events to document the process and business rules in effect to record usage;

3. Reviewed the Beneficiary's processes and procedures for identifying non-usage;

4. Determined if the Beneficiary has adopted adequate safeguards to prevent non-usage errors;

5. Conducted systems validations to ascertain the sufficiency of systems controls and data integrity; and

6. Conducted substantive testing on the accuracy of the subscriber data claimed by the Beneficiary by confirming whether the subscriber had qualified usage in accordance with the FCC's rules.

We obtained an understanding of the Beneficiary's usage process relating to the Lifeline Program to help determine whether the Beneficiary complied with the Usage Rules. To accomplish this objective, Mitchell Titus was engaged under Task Order No. LI008 to perform a related Carrier Process and System Validation Study (the Study) of Telrite's Lifeline usage system. The results of the Study, which include the process used by Telrite to monitor compliance with Usage Rules and related findings, are included in a separate report.

SAMPLING

To determine whether the Beneficiary properly complied with the Lifeline Program's Usage Rules, we developed a statistical sampling plan, which was approved by USAC, to determine the sample size to use for testing based on the guidance contained in the American Institute of Certified Public Accountants' (AICPA) Audit Guide*, Audit Sampling*.

We obtained from USAC the entire population of Lifeline claims made by Telrite during the audit period and made a random sample selection, from all SACs, all months and all subscribers in the population, using the audit software IDEA, of 45 items (an individual subscriber for a particular month – at least one subscriber from each month in 2019 was selected). This sample size was based on a 90% confidence level (10% Risk of Overreliance) prescribed in the Task Order and, in accordance with our approved sampling plan, we assumed an expected Population Deviation Rate of 0% and a 5% Tolerable Deviation Rate.

Telrite's Lifeline usage process is dependent on the receipt of Call Detail Records (CDRs) from its various carriers and the processing of CDRs into various database tables. The key tables developed by Telrite in its Lifeline usage process are the "usagestats,""svcstatus,"and" lwpnut" database tables. These tables summarize the subscribers' usage details, demonstrate whether the subscriber was active in the carrier's network and calculate "days since [subscriber's] last use," respectively. This is the key factor in determining if a claim for reimbursement from USAC can be made for the month, when impending termination notices must be sent and when de-enrollment from the Lifeline Program for non-usage must occur.

We, accordingly, requested CDRs and the related information contained in Telrite's "svcstatus," "usagestats," and" lwpnut" database tables to support the sample subscribers' claims paid by USAC. Such CDRs and table information were provided by Telrite from files that it maintained in accordance with Lifeline Program's document retention requirements. The scope of our audit did not include obtaining corroborating documentation from the third-party carriers that supplied the original CDRs to Telrite.

For the subscribers for the related months selected for testing, we determined that the monthly claim to USAC for reimbursement was supported by a valid type of usage, without exception. We also determined that the subscribers were appropriately indicated as being active in the carrier's network during the month based on the svcstatus information; the subscriber's usagestats information was supported by CDRs and the days since last use reported in the subscriber's lwpnut was appropriate considering the time-lag inherent in the receipt of CDRs from the carriers.

DETAILED AUDIT FINDING

Finding 2019-001: 47 C.F.R. §54.407(c)(2) – Inaccurate Usage Reporting - Voicemail messages received

CONDITION

In performing the audit, we inquired about Telrite's procedures for determining and monitoring non-usage and the types of usage considered valid in relation to the Usage Rules and claims for reimbursement.

In identifying usage to support Lifeline claims for reimbursement, Telrite informed us that one of its third-party carriers, Claro, does not report voicemail messages received as a separate field in the CDRs provided to Telrite to support usage. They are, however, not sure if Claro included voicemail messages received with incoming voice calls.

Because receiving a voicemail message is not considered a valid form of usage, it is unclear if Telrite is properly excluding Claro voicemail messages received, which is not an allowable form of usage, from answered incoming voice calls, which is an allowable form of usage

This condition was confirmed during our compliance testing when we reviewed CDR documentation for Telrite's three carriers. In testing usage by reference to CDRs, we noted that Claro did not separately identify voicemail messages received like the other two carriers so that it was clear such activity was being excluded from voice calls received. However, no exceptions were noted during our testing since all sample items had other forms of allowable usage.

CAUSE

Claro does not break out voicemail messages received in the CDRs it provides to Telrite, and it is unclear if voicemail messages received are included with incoming voice calls.

EFFECT

Telrite potentially claimed reimbursement for subscribers who had no forms of usage other than voicemail messages received. Because of the need for a computerized approach to deal with large volumes of transactions, we were not able to estimate the monetary effect of this condition. It should be noted that this occurrence would result in overpayments to the Beneficiary only when the subscriber had no other valid usage (*i.e.,* only voicemail messages received activity for the entire 45-day termination period).

RECOMMENDATION

Telrite should follow up with Claro to determine if voicemail messages received activity is in fact excluded from voice call CDRs. If included, Telrite must determine how to exclude such activity from voice call activity to ensure that the reporting of claims are compliant with the FCC Rules.

If appropriate, Telrite should quantify the monetary effect and report to USAC any reimbursement claims for subscribers whose documentation demonstrated voicemail messages received as a form of usage.

Mitchell Titus recommends that USAC Management require the Beneficiary to provide documentation to Lifeline Program Management to confirm whether any ineligible subscribers were claimed and seek recovery of any amounts overclaimed as appropriate.

BENEFICIARY RESPONSE

The Beneficiary agreed with this finding and made follow up inquiries with the affected carrier, Claro. Based on the information provided by Claro and a review of its system's processing of current CDRs as well as CDRs for 2019, the Beneficiary concluded that voicemail-messages-received activity is in fact excluded from voice call CDRs.

TELRITE CORPORATION – LI2021SR017

AUDITOR'S CONCLUSION

Based on the Beneficiary's response, the condition was valid as of the date our field work was completed and no modifications to the finding are required.

CRITERIA		
Finding	**Criteria**	**Description**
2019-001	47 C.F.R. §54.407(c)(2)(2019)	"2) After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 30 days, or who have cured their non-usage as provided for in §54.405(e)(3). Any of these activities, if undertaken by the subscriber, will establish "usage" of the Lifeline service: (i) Completion of an outbound call or usage of data; (ii) Purchase of minutes or data from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunication carrier or the eligible telecommunications carrier's agent or representative. (iv) Responding to direct contact from the eligible telecommunications carrier and confirming that he or she wants to continue receiving Lifeline service; or (v) Sending a text message."

"This concludes this report."

Summary of Low Income Support Mechanism Beneficiary Audit Reports Released: June 2023

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Pine Telephone Company **Attachment C**	1	• No significant findings.	$616,212	$2,950	$2,950	N
Sacred Wind Communications, Inc. **Attachment D**	1	• No significant findings.	$705,001	$6,267	$6,267	Y
Total	**2**		**$1,321,213**	**$9,217**	**$9,217**	

Attachment C

LI2021LR008

Pine Telephone Company, Inc.

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

USAC Audit No. LI2021LR008

Contents

EXECUTIVE SUMMARY

March 27, 2023

Esta Callaham
President
Pine Telephone Company, Inc.
210 W. 2nd Street
P.O. Box 548
Broken Bow, OK 74728

Dear Esta Callaham:

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

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

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

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

cc: Radha Sekar, USAC Chief Executive Officer
Timothy O'Brien, USAC Vice President, Lifeline Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery
Finding: 47 C.F.R. § 54.403(a)(1) and 47 C.F.R. § 51.915(e)(5)(vi) – Failure to Pass Through Full Lifeline Support The Beneficiary failed to pass through the full Lifeline support to subscribers that they claimed in the Lifeline Claims System because the Beneficiary used some of the claims to offset the Access Recovery Charge instead of providing the full claim to offset the services received.	$2,950	$2,950

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
432017	Oklahoma	Tribal Lifeline	2,264	$56,949
439012	Oklahoma	Tribal Lifeline	16,345	$559,263
		Total	**18,609**	**$616,212**

Note: The amount of support reflects disbursements as of the commencement of the audit.[1]

[1] The audit was announced June 16, 2021.

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 58 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

AAD obtained an understanding of the Beneficiary's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Beneficiary to comply with the Independent Economic Household (IEH) requirements. AAD obtained and tested documentation or National Verifier results for 20 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts

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

E. Form 555

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

F. Minimum Service Standard

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

G. Enrollment Representative Accountability

AAD obtained an understanding of the Beneficiary's enrollment representative process relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation for 47 enrollment representatives to determine whether the Beneficiary compensates its enrollment representatives on a commission basis.

DETAILED AUDIT FINDING

Finding: 47 C.F.R. § 54.403(a)(1) – Failure to Pass Through Full Lifeline Support

CONDITION

AAD obtained and examined the billing registers and a sample of 58 subscribers' bills from SACs 432017 and 439012 to determine if the Lifeline Program support disbursed to the Beneficiary per the Lifeline Claims System (LCS) was passed onto subscribers in full. AAD determined that there were variances between the Lifeline credit passed through to subscribers per the billing registers and the Lifeline support claimed for 13 of the 58 subscribers' bills sampled. These 13 Lifeline subscribers sampled from SAC 432017 received voice-only services and were improperly assessed a $2 Access Recovery Charge (ARC) on their bills, which the Beneficiary offset with the Lifeline benefit.[2] Due to the noncompliance of the 13 sampled subscribers, AAD reviewed the billing registers in their entirety and determined that 202 of the 245 subscribers for SAC 432017 received voice services and were improperly assessed a $2 ARC on their bills, which the Beneficiary offset with the Lifeline benefit. Lifeline subscribers should not be assessed an ARC per the FCC Rules.[3] Therefore, AAD concludes that the Beneficiary failed to pass through the full Lifeline support to 202 subscribers it claimed in the LCS because the Beneficiary used some of the claims to offset the ARC instead of providing the full claim to offset the services received.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the requirement to pass through the full amount of Lifeline support to the eligible subscribers. The Beneficiary acknowledged this was a mistake and that it was incorrectly assessing the ARC surcharge to Lifeline customers with voice services.[4]

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) that the Beneficiary claimed full Lifeline support for the 202 subscribers while assessing the subscribers the ARC. AAD identified a total of 1,475 instances for Tribal subscribers. AAD multiplied the number of instances by the amount of the ARC ($2), rounded to the nearest whole dollar. AAD summarized the results below:

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
432017	Tribal Lifeline	$2,950

RECOMMENDATION

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

[2] *See* Beneficiary response to audit inquiries, received Oct. 25, 2022.
[3] *See* 47 CFR § 51.915(e)(5)(vi) (2018).
[4] *See* Beneficiary response to audit results summary, received Feb. 21, 2023.

The Beneficiary must implement policies and procedures to ensure that it passes through the full amount of Lifeline Program support to its eligible Lifeline subscribers. In addition, the Beneficiary may learn more about the Lifeline program requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

Pine's billing system incorrectly assessed the ARC surcharge to Lifeline customers with voice services for a portion of USAC's review period. This error was caught and corrected in December of 2019. As a result, additional policies and procedures have since been implemented.

Examples of mitigation steps that have been put in place include the following:

- A series of cross checks have been added to billing reports.
- Additional billing department training.
- Increased the frequency of auditing customers' bills to ensure accuracy of charges are being assessed.

CRITERIA

47 C.F.R. § 54.407(a)(1) (2018):

Federal Lifeline support in the amount of $9.25 per month will be made available to an eligible telecommunications carrier providing Lifeline service to a qualifying low-income consumer, except as provided in paragraph (a)(2) of this section, if that carrier certifies to the Administrator that it will pass through the full amount of support to the qualifying low-income consumer and that it has received any non-federal regulatory approvals necessary to implement the rate reduction.

47 CFR § 51.915(e)(5)(vi) (2018):

The Access Recovery Charge may not be assessed on lines of any Lifeline Customers.

This concludes the report.

Attachment D

LI2021LR003

Sacred Wind Communications, Inc.

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

USAC Audit No. LI2021LR003

CONTENTS

EXECUTIVE SUMMARY

February 7, 2023

Terry Clark
Controller
Sacred Wind Communications, Inc.
7801 Academy Road, NE
Building 2 – Room 103
Albuquerque, NM 87109-3146

Dear Mr. Clark:

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

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

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

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

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

Sincerely,

Jeanette Santana Gonzalez

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

cc: Radha Sekar, USAC Chief Executive Officer
Timothy O'Brien, USAC Vice President, Lifeline Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

AUDIT RESULT AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding: 47 C.F.R. § 54.413(a) – Ineligible Tribal Link Up Subscribers Beneficiary improperly claimed support for broadband-only subscribers who were not eligible to receive Lifeline support for Tribal Link Up during the audit period.	$6,267	$6,267

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
493403	New Mexico	Non-Tribal Lifeline	444	$4,042.00
		Tribal Lifeline	25,424	$700,958.75
		Total	**25,868**	**$705,000.75**

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

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 58 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

AAD obtained an understanding of the Beneficiary's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Beneficiary to comply with the Independent Economic Household (IEH) requirements. AAD obtained and tested documentation or National Verifier results for 18 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts

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

E. Form 555

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

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

DETAILED AUDIT FINDING

FINDING: 47 C.F.R. § 54.413(a)(2018) – Ineligible Tribal Link Up Subscribers

CONDITION
AAD obtained and examined the Beneficiary's Lifeline Claim System (LCS) submissions for the 12 months period ended December 31, 2019 for SAC 493403 to determine whether only eligible subscribers received Tribal Link Up support. AAD identified 64 broadband-only subscribers who received Tribal Link Up support that the Beneficiary claimed in a total amount of $6,267. Only telecommunications services are eligible for the Tribal Link Up assistance program[1] and the FCC changed the classification of broadband Internet access service from a telecommunications service to an information service in 2018.[2] Therefore, AAD concludes that the Beneficiary improperly claimed support for broadband-only subscribers who were not eligible to receive Lifeline support for Tribal Link Up during the audit period.

CAUSE
The Beneficiary did not demonstrate sufficient knowledge of the rules regarding eligibility for the Tribal Link Up assistance program. The Beneficiary incorrectly interpreted the FCC Rules to allow customers with Consumer Broadband Only Loop Service to qualify for Tribal Link Up support.[3]

EFFECT
The monetary effect of this finding represents the total amount of Tribal Link Up support disbursed to the Beneficiary during the audit period for the 64 ineligible subscribers. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
Tribal Lifeline	$6,267

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

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[1] See 47 C.F.R. § 54.413(a) (2018).
[2] *See* "*In the Matter of Restoring Internet Freedom: Declaratory Ruling, Report, and Order*", WC Docket No. 17-108, FCC 17-166, para. 26 (rel. Jan. 4, 2018).
[3] See Beneficiary response to the Summary of Exceptions (received Sep. 16, 2022).

The Beneficiary must familiarize itself with the Lifeline support requirements before submitting its LCS submissions. The Beneficiary must implement policies, procedures, and controls to ensure that Tribal Link Up support is claimed in accordance with the FCC Rules. In addition, the Beneficiary may learn more about the Lifeline rules and requirements at https://www.usac.org/lifeline/rules-and-requirements/.

BENEFICIARY RESPONSE

Modernization of the lifeline program included an expanded definition of what qualifies for Lifeline service, to include fixed or mobile voice telephony service, broadband Internet access service, or a bundle of broadband Internet access service and fixed or mobile voice telephony service. However, the same modernization was not applied to Tribal Link Up, which is specifically limited to "telecommunications services". The subscribers noted in the finding are Consumer Broadband-Only (CBOL) subscribers, which we believe is a FUSF supported telecommunications service. Per 54.901(g), a consumer broadband-only loop is a line provided by a rate-of-return incumbent local exchange carrier to a customer without regulated local exchange voice service, for use in connection with fixed Broadband Internet access service, as defined in Section 8.2 of this chapter. Moreover, Telecommunications service, as defined in Section 54.5, is the offering of telecommunications for a fee directly to the public, or to such classes of users as to be effectively available directly to the public, regardless of the facilities used. Based on these rules, we believe consumer broadband-only service is a telecommunications service and we also do not believe the FCC intended to exclude these consumer broadband-only subscribers from qualifying for Tribal Link Up support.

AAD RESPONSE

The Beneficiary believes consumer broadband-only service is a telecommunications service, and does not believe the FCC intended to exclude these consumer broadband-only subscribers from qualifying for Tribal Link Up support. USAC is not allowed to interpret FCC Rules and Orders, and must audit in accordance with the FCC Rules and Orders. When Broadband came into Lifeline with the 2016 Lifeline Order, broadband Internet access service (BIAS) was considered a "telecommunications service."[4] The FCC defines BIAS as "a mass-market retail service by wire or radio that provides the capability to transmit data to and receive data from all or substantially all Internet endpoints, including any capabilities that are incidental to and enable the operation of the communications service, but excluding dial-up Internet access service."[5] More specifically, "'[f]ixed' BIAS refers to a BIAS that serves end users primarily at fixed endpoints using stationary equipment, such as the modem that connects an end user's home router, computer, or other Internet access device to the Internet.[6] The term encompasses the delivery of fixed broadband over any medium, including various forms

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[4] *See "In the Matter of: Lifeline and Link Up Reform and Modernization,"* Third Report and Order, Further Report and Order, and Order on Reconsideration, WC Docket No. 11-42, FCC 16-38, para. 39 (rel. Apr. 27, 2016).
[5] *See* 47 CFR § 8.2(a) (defining broadband Internet access service).
[6] See *Open Internet Order,* 25 FCC Rcd at 17934, para. 49; *Title II Order*, 30 FCC Rcd at 5683, para. 188.

of wired broadband services (e.g., cable, DSL, fiber), fixed wireless broadband services (including fixed services using unlicensed spectrum), and fixed satellite broadband services."[7]

On June 11, 2018, the Restoring Internet Freedom Order went into effect, and changed BIAS back to an "information service," making it ineligible for Tribal Link Up.[8] Because fixed BIAS includes the delivery of fixed BIAS over any medium, and BIAS is considered an "information service" during the audit period, AAD's conclusion on this finding remains unchanged.

CRITERIA

47 C.F.R. § 54.413(a) (2018):

> For purposes of this subpart, the term ''Tribal Link Up'' means an assistance program for eligible residents of Tribal lands, if the subscriber's location is rural, as defined in §54.505(b)(3)(i) and (ii), seeking telecommunications service from a telecommunications carrier that is receiving high-cost support on rural Tribal lands, pursuant to subpart D of this part…

In the Matter of Restoring Internet Freedom, Declaratory Ruling, Report, and Order, WC Docket No. 17-108, FCC 17-166, para. 26 (rel. Jan. 4, 2018):

> In deciding how to classify broadband Internet access service, we find that the best reading of the relevant definitional provisions of the Act supports classifying broadband Internet access service as an information service.

This concludes the report.

[7] *See* "*In the Matter of Restoring Internet Freedom: Declaratory Ruling, Report, and Order*", WC Docket No. 17-108, FCC 17-166, para. 22 (rel. Jan. 4, 2018).

[8] *See* "*In the Matter of Restoring Internet Freedom: Declaratory Ruling, Report, and Order*", WC Docket No. 17-108, FCC 17-166, para. 26 (rel. Jan. 4, 2018).