High Cost & Low Income Committee

Audit Report Briefing Book

Monday, October 28, 2024

Available for Public Use

Universal Service Administrative Company

700 12th Street, NW, Suite 900

Washington, DC 20005

Summary of the High Cost Support Mechanism Beneficiary Audit Report Released: July 2024.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Attachment A Midvale Telephone Exchange Inc. – Arizona Exchange	3	• No significant findings.	$3,402,258	($27,048)	$0	N
Total	**3**		**$3,402,258**	**($27,048)**	**$0**	

* The Monetary Effect amount may result in negative amounts that appear to be an underpayment. However, USAC's policy is not to issue support in the case of an audit finding (i.e., FCC rule violation) when the calculation results a in a net underpayment.

Attachment A

HC2023LR028

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

LIMITED REVIEW PERFORMANCE AUDIT

MIDVALE TELEPHONE EXCHANGE INC. – ARIZONA EXCHANGE

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND

HIGH COST SUPPORT MECHANISM RULES

USAC AUDIT NO. HC2023LR028

SIKICH

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Executive Summary

December 18, 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:

Sikich CPA LLC[1] (referred to as "we") was engaged to conduct a limited review performance audit on the compliance of Midvale Telephone Exchange Inc., Arizona Exchange (Beneficiary), study area code **452226** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2021. Sikich conducted the audit field work from March 24, 2023, to December 18, 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's) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary's management. Sikich's responsibility is to evaluate the Beneficiary's compliance with FCC Rules based on our limited scope performance audit.

Based on the test work performed, our audit disclosed three detailed audit findings, as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a "finding" is a

[1] Effective December 14, 2023, we amended our legal name from "Cotton & Company Assurance and Advisory, LLC" to "Sikich CPA LLC" (herein referred to as "Sikich"). Effective January 1, 2024, we acquired CLA's federal practice, including its work for the Universal Service Administrative Company.

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.

Audit Results and Recovery Action

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

Audit Results	Monetary Effect & Recommended Recovery				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 1: 47 C.F.R. § 32.6112(b) (2019), 32.6534(b) (2019) and § 32.6535(b) (2019) – Improper Distribution of Overhead Expenses. The Beneficiary used direct labor dollars instead of direct labor hours when distributing its overhead expenses. Additionally, the Beneficiary allocated overhead expense to both plant and non-plant/ construction accounts.	($8,590)	($11,680)	$0	($20,270)	$0
Finding No. 2: 47 C.F.R. § 32.2(a)(b) (2019) – Misclassification of Part 32 Accounts: Expenses. The Beneficiary misclassified 12 expense transactions to incorrect Part 32 accounts.	($3,572)	($7,272)	$0	($10,844)	$0
Finding No. 3: 47 C.F.R. § 54.903(a)(3)(4) (2019) - Inaccurate Reporting of Average Monthly Broadband-Only Loops. The Beneficiary did not accurately calculate the	$4,067	$0	$0	$4,067	$4,067

[2] The High Cost program does not pay additional support in the event of a finding resulting in an underpayment.

Audit Results	Monetary Effect & Recommended Recovery				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Average Monthly Broadband-Only Loops on FCC Form 509.					
Total Net Monetary Effect	**($8,095)**	**($18,952)**	**$0**	**($27,048)**	**$4,067**

USAC Management Response

USAC management concurs with the audit results for SAC 452226, 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	($8,590)	($11,680)	$0	($20,270)	N/A
Finding #2	($3,572)	($7,272)	$0	($10,844)	N/A
Finding #3	$4,067	$0	$0	$4,067	N/A
Total	**($8,095)**	**($18,952)**	**$0**	**($27,048)**	**N/A**

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

Background and Program Overview

Background

Midvale Telephone Exchange, Inc. (MTE) is the parent company of Midvale Telephone Company that does business as MTE Communications. The Beneficiary is a cost-based eligible telecommunications carrier (ETC). The Beneficiary provides telephone, broadband, circuits, and other related services in the states of Idaho, Arizona, Oregon, and Washington. The Beneficiary's study area code 452226 is in Arizona, with more than 1,000 subscribers as of December 31, 2019. In addition to Part 64 regulated services, the Beneficiary provides internet, long distance, and Voice over Internet Protocol (VOIP) phone services which are regulated differently than local exchange services, but specifically considered non-regulated as it pertains to the Part 64 regulated/non-regulated accounting.

<u>Program Overview</u>
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 collection and 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 HCP, a component of the USF, ensures that consumers in rural areas of the country have access to telecommunications services—and pay rates for those services—that are reasonably comparable to the 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 (HCL) Support:** HCL is available for rural companies operating in service areas where the cost to provide service exceeds 115 percent of the national average cost per loop.

- **Rate-of-Return Incumbent Local Exchange Carrier (ILEC) Connect America Fund (CAF) Intercarrier Compensation (ICC) Support**: CAF ICC support is available to rate-of-return ILECs to assist them in offsetting ICC 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 percent 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 is a reform of the Interstate Common Line Support (ICLS) that helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

Objectives, Scope, and Procedures

<u>Objective</u>
The purpose of our audit was to determine whether the Beneficiary complied with FCC Rules for the 2021 disbursement period.

<u>Scope</u>
The chart below summarizes the HCP support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2019	2021	$1,890,108
HCL	2019	2021	$1,117,554
ICC	2018–2020	2021	$394,596
		Total	**$3,402,258**

<u>Procedures</u>
We performed the following procedures:

A. High Cost Program Support Amount
We recalculated the support that the Beneficiary received for each High Cost component to determine whether 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 HCP to determine whether the Beneficiary complied with 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 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. 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 HCP 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

<u>Finding No. 1: 47 C.F.R. § 32.6112(b) (2019), § 32.6534(b) (2019) and § 32.6535(b) (2019): – Improper Distribution of Overhead Expenses</u>

Condition

We obtained and examined the Beneficiary's clearing process narrative, clearing reports, and general ledger for the filing period as of December 31, 2019, in order to determine whether the overhead amounts in Part 32 (accounts 6110, 6112, 6113, 6114, 6512, 6534, and 6535) were (1) cleared to construction and/or plant-specific operations expense accounts and (2) allocated based on direct labor hours or suitable loading charges where appropriate.

The Beneficiary utilizes accounts 6530, 6535 and 8500 to accumulate expenses to be allocated out as overhead. Per review of the Part 64 Cost Study, these accounts properly roll up to the Part 32 parent accounts. Accounts specifically utilized are 6530.33 for their General Plant Administration overhead spread of Part 32 account 6534, account 6535.33 for their Engineering overhead spread of Part 32 account 6535, account 8500.32 for their Corporate Vehicle overhead spread of Part 32 account 6112, and account 8500.34 for their Plant Vehicle overhead spread of Part 32 account 6112.

Upon review of the Beneficiary's documentation of overhead clearing, we identified the following exceptions that occurred throughout the filing period of December 31, 2019:

- **Account 6530.33 for General Plant Administration spread and Account 6535.33 for Engineering spread:** The Beneficiary utilized labor dollars for the basis of the spread rather than the required labor hours allocation methodology. Specifically, the overhead spread was allocated to non-construction account 6120 (General Support expense account) and account 6720 (General and Administrative expense account). However, per 47 C.F.R. § 32.6534(b) and 47 C.F.R. § 32.6535(b), "*Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours.*" In addition, the amounts that were cleared from accounts 6530.33 and 6535.33 were different than the amounts calculated on the clearing reports for the "Amount To Spread" because the costs on the clearing report included regulated and non-regulated expense accounts. Per discussion with the Beneficiary, the recorded cost in the regulated expense accounts were to remain and therefore not spread; however, the Beneficiary utilized costs in regulated and nonregulated accounts to create a percentage to spread overhead. As a result, the Beneficiary did not use all accounts and the percentages developed did not get adjusted to reflect only the costs from the accounts that end up being spread.[3]

- **Account 8500.32 for Corporate Vehicle spread:** Although the basis of the spread for account 8500.32 was correctly based on labor hours for the vehicle expense, we identified instances in which the vehicle overhead was incorrectly spread to account 6530

[3] *See* 47 C.F.R. § 64.901(b) (2019).

(plant non-specific operations expense account) and account 6720 (General and Administrative expense account). Per 47 C.F.R. § 32.6112(b), "*Credits shall be made to this account by companies for amounts transferred to Construction and/or other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.*"

- **Account 8500.34 for Plant Vehicle spread:** Although the basis of the account 8500.34 spread was correctly based on labor hours for the vehicle expense, we identified instances in which the vehicle overhead was incorrectly spread to account 6530 (plant non-specific operations expense account), account 6613 (Customer marketing account), and account 6720 (General and Administrative expense account). Per 47 C.F.R. § 32.6112(b), "*Credits shall be made to this account by companies for amounts transferred to Construction and/or other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.*"

We considered the exceptions we identified in our examination of the Beneficiary's clearing process and have summarized the effect to account balances reported for HCP purposes.

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Over/(Under) Reported (A-B)**
Telecommunications Plant Under Construction-Short Term (Account 2003)	$94,797	$67,768	$27,029
General Support Expense (Account 6120)	$54,593	$54,377	$216
Central Office Switching Expense (Account 6210)	$121,067	$121,137	($70)
Central Office Transmission Expense (Account 6230)	$1,049,338	$1,054,854	($5,516)
Cable and Wire Facilities Expense (Account 6410)	$661,728	$666,110	($4,382)
Network Operation Expense (Account 6530)	$220,179	$245,512	($25,333)
Marketing Expense (Account 6610)	$38,092	$36,696	$1,396
General and Administrative (Account 6720)	$498,821	$498,636	$185

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly distribute and record the overhead clearing expenses to the related plant specific operations expense accounts using direct labor hours or clearing to construction

and/or plant-specific operations expense accounts when required. Specifically, the Beneficiary noted that the spread allocation was not being reviewed often enough, stating that:

> *…to catch the non-plant accounts that were receiving expense spread. This was caused by employees coding time to those accounts and those accounts not being flagged to not be spread to. Employees change jobs and quit/hired which would require spread allocation review. This has been put into place and will be done monthly. The 6530 and 6535 spread will be changed to spread based on payroll hours.*[4]

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances and add the understated account balances —as stated in the "Recalculation of Part 64" table above for the period ending December 31, 2019. We summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($8,590)
HCL	($11,680)
CAF ICC	$0
Total	**($20,270)**[5]

Recommendation

We recommend the Beneficiary update and review on a more timely basis the methodology used for the clearing of overhead to properly calculate and to distribute its overhead expenses to the related plant specific operation expense accounts and/or construction accounts using direct labor hours, where required.

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

Midvale agrees with the finding and has updated the clearing process to be in alignment with Part 32 and has put in place a monthly review.

[4] Per the Beneficiary's response to the Exception Summary received January 24, 2024.
[5] The High Cost program does not pay additional support in the event of a finding resulting in an underpayment.

Finding No. 2: 47 C.F.R. § 32.2(a)(b) (2019) – Misclassification of Part 32 Accounts: Expenses

Condition

We obtained and examined the Beneficiary's general ledger and cost study balances and selected a non-statistical sample of 96 expense transactions totaling $242,913 for the filing period ending on December 31, 2019—to determine whether the Beneficiary recorded transactions to the proper Part 32 accounts for HCP purposes. Upon examination of the supporting documentation, we determined that the Beneficiary did not properly classify twelve (12) merchant bank fees expense transactions out of the 96 expense transactions, as described in the table below:

Nature of Expenses	Exception	Original Recorded General Ledger Account	Updated Recorded General Ledger Account	Value of Samples With Exception	Non-Regulated % Previously Removed	Remaining Value of Samples With Exception
Merchant Bank Fee	Misclassified Expense	Customer Operation Services (Account 6620)	General and Administrative (Account 6720)	$21,209	0.44%	$21,116

FCC rules require that financial accounts of a company record basic transaction in monetary terms, group them into natural categories, and reflect reoccurring functions within the telecommunications industry related to assets, operations, and revenue.[6] Because the Beneficiary did not record the twelve (12) merchant bank fee expense transactions to the proper Part 32 account, we concluded that the cost study balances reported for HCP purposes were inaccurate. We summarized the effect of the misclassification of the expenses sampled in the table below.

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Customer Operation Services (Account 6620)	$174,555	$153,346	$21,209
General and Administrative (Account 6720)	$498,821	$519,937	($21,116)

[6] *See* 47 C.F.R. § 32.2(a)(b) (2019).

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to record expenses to the proper Part 32 account for HCP purposes. Specifically, the Beneficiary stated that:

> *MTE had [the] wrong GL account being used for the coding of expenses related to taking customer payments. Staff thought [that] since the expense was driven by customer payments that the expense should be recorded to Customer Expense. This has been corrected going forward.*[7]

Effect
We calculated the monetary effect of this finding by subtracting the overstated balance of $21,209 from account 6620 and adding the understated balance of ($21,116) to account 6720 from the Beneficiary's HCP filings for the period ending December 31, 2019. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($3,572)
HCL	($7,272)
CAF ICC	$0
Total	**($10,844)**[8]

Recommendation
We recommend that the Beneficiary implement policies and procedures to ensure it classifies expense transactions to the proper Part 32 accounts to demonstrate compliance with FCC Rules. Specifically, the Beneficiary should develop policies and procedures that are inclusive of vetting expense types against the Part 32 account definitions to ensure they are being appropriately coded into the general ledger.

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
Midvale agrees with the finding and has corrected the coding of the merchant bank fee expense[s] to be recorded to the 6720 Corporate expense account going forward.

Finding No. 3: 47 C.F.R. § 54.903(a)(3)(4) (2019): Inaccurate Reporting of Average Monthly Broadband-Only Loops

[7] Per the Beneficiary's response to the Exception Summary received January 24, 2024.
[8] The High Cost program does not pay additional support in the event of a finding resulting in an underpayment.

Condition
We obtained and examined the Beneficiary's FCC Form 509, National Exchange Carrier Association (NECA) EC2060-L Report,[9] *Calculation of the Average Monthly Broadband-Only Loops and Billing Report for Consumer Broadband-Only Loops (CBOL)*, to determine that the Average Monthly Broadband-Only Loops were accurately calculated and reported for HCP purposes.

From discussions with the Beneficiary, we learned that the advertisement of Consumer Broadband-Only Loop services started in August 2019 with provision of service and generation of revenue occurring in September 2019. Utilizing the monthly view of NECA's EC2060-L report, which equals the annual amounts reported on the FCC Form 509, we identified the reported total Consumer Broadband-Only Loop counts per month for the filing period ending December 31, 2019. For the purpose of recalculating the Average Monthly Broadband-Only Loops, we examined NECA's EC2060-L Report and compared the report to the calculation of the Average Monthly Broadband-Only Loops and billing report for Consumer Broadband-Only Loops provided by the Beneficiary.

Upon examination, we identified the following errors in the Beneficiary's calculation:

- The Beneficiary's monthly view of NECA's EC2060-L Report showed total Consumer Broadband-Only Loop count reporting starting in the month of October 2019 through December 2019, while the Beneficiary's calculation of the Average Monthly Broadband-Only Loop count showed that total Consumer Broadband-Only Loop service starting in the month of September 2019 through December 2019. Thus, there is a one-month delay in the reported values on the Beneficiary's monthly view of NECA's EC2060-L Report. For example, the Consumer Broadband-Only Loop count reported in the month of December 2019 represents count activity for November 2019.

- The Beneficiary reported on their FCC Form 509 an Average Monthly Broadband-Only Loop count of 28. The average of 28 was computed by utilizing the counts reported in October 2019 through December 2019 on NECA's EC2060-L Report over a 12-month total that reflected September 2019 through November 2019 count activity, missing including the December 2019 activity in the calculation. The original calculation utilized was 336 count / 12 months = 28.

Because of the errors noted above, we recalculated the Average Monthly Broadband-Only Loops using count activity from September 2019 through December 2019 over a 12-month period. The updated calculation utilized was 518 count / 12 months = 43. As a result, our recalculation supports a difference of 15 loops, as follows:

Average Monthly Broadband-Only Loops	For Data Period 2019

[9] NECA's EC2060-L Report provides a 24th Month View of the Beneficiary's telecommunication activities.

Reported Average Monthly Broadband-Only Loops on FCC Form 509	28
Calculated Average Monthly Broadband-Only Loops	43
Average Monthly Broadband-Only Loops Difference	15

Below, we summarize the impact to FCC Form 509 filed for period December 31, 2019:

Line	FCC Form 509	As Reported FCC Form 509 Filed (A)	Sikich Audited Form 509 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
7	2019 Common Line Voice Revenue Requirement (Line 5 + Line 6)	$1,078,017	$1,078,017	$0
11	2019 Subscriber Line Charge (SLC) Revenue (Line 8 + Line 9 - Line 10)	$108,608	$108,608	$0
12	2019 End User Integrated Services Digital Network (ISDN) Port Revenue	$0	$0	$0
13	2019 Special Access Surcharge Revenue	$0	$0	$0
14	2019 CAF BLS Voice (Line 7 - Line 11 - Line 12 - Line 13)	$969,409	$969,409	$0
15	2019 Consumer Broadband-Only Loop Revenue Requirement (RRQ)	$119,392	$119,392	$0
16	2019 OpEx Limitation and/or FCC Exclusions	($496)	($496)	$0
17	2019 Consumer Broadband-Only Loop RRQ (Line 15 + Line 16)	$119,296	$119,296	$0
18	Pool Administration Expense Amount (applicable to CBOL Tariff Participants Only)	$4,433	$4,433	$0
19	2019 Consumer Broadband-Only Loop RRQ (Line 17 + Line 18)	$123,729	$123,729	$0
20	2019 Average Monthly Broadband-Only Loops (Line 59)	$28	$43	($15)

Line	FCC Form 509	As Reported FCC Form 509 Filed (A)	Sikich Audited Form 509 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
21	2019 Average Broadband-Only Revenues (Line 20 * 12 * $42)	$14,112	$21,756	($7,644)
22	Lesser of 2019 Broadband-Only (Line 19) RRQ or Broadband-Only Revenues (Line 21)	$14,112	$21,756	($7,644)
23	2019 Average of Consumer Broadband-Only Rates (Line 59)	$45	$45	$0
24	2019 Broadband-Only Revenues (Line 20 * Line 23 * 12)	$15,016	$23,150	($8,134)
25	2019 Broadband-Only Revenues (greater of Line 22 or Line 24)	$15,016	$23,150	($8,134)
26	2019 CAF BLS Broadband-Only** (Line 19 - Line 25)	$108,713	$100,579	$8,134
27	2019 Connect America Fund Broadband Loop Support (Line 7 + Line 19) - (Line 11 + Line 12 + Line 13 + Line 25)	$1,078,122	$1,069,988	$8,134

FCC rules require accurate reporting of CAF BLS data.[10] Because the Beneficiary did not properly account for Consumer Broadband-Only Loop count for the months in 2019 where this service was provided and therefore earned, we concluded that the Beneficiary did not accurately report the Average Monthly Broadband-Only Loops, thereby impacting the 2019 CAF BLS support for HCP purposes.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to accurately report Consumer Broadband-Only Loops for High Cost purposes. The Beneficiary stated that:

> *This was the first year that MTE offered CBOL and it was new for MTE staff. The 509 was filled out using NECA 1050 data thinking that the number would have to match what was reported in NECA. NECA data is one month behind in reporting, that is why there was one month of data missing.*[11]

[10] *See* 47 C.F.R. § 54.903(a)(3)-(4) (2019).

[11] Per the Beneficiary's response to the Exception Summary received January 24, 2024.

Effect
We calculated the monetary effect of this finding by adding the $8,134 of understated revenue to the Beneficiary's HCP filings. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$4,067
HCL	$0
CAF ICC	$0
Total	**$4,067**[12]

Recommendation
We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implement an adequate system to report accurate data for HCP purposes. Specifically, we recommend that the Beneficiary take into consideration that Consumer Broadband-Only Loop data reported on NECA forms are reported with a 1 month lag, and that the Average Monthly Broadband-Only Loop count should be calculated utilizing the actual month's data.

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
Midvale agrees that the September count should have been included in the development of the average monthly CBOL count to account for the one month lag in NECA reporting.

[12] The monetary effect listed only represents disbursements during calendar year 2021. Accordingly, although the report identifies $4,067 in improper disbursements were made during the audit period, additional amounts may have been overstated in prior and subsequent periods due to the same error.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 32.6112(b) (2019)	(b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.
1	47 C.F.R. § 32.6534(b) (2019)	(b) Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours. (See § 32.2000(c)(2)(ii) of subpart C.)
1	47 C.F.R. § 32.6535(b) (2019)	(b) Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours. (See § 32.2000(c)(2)(ii) of subpart C.)
2	47 C.F.R. § 32.2(a)(b) (2019)	(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

Finding	Criteria	Description
		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.
3	47 C.F.R. § 54.903(a)(3)(4) (2019)	(3) Each rate-of-return carrier shall submit to the Administrator annually by March 31 projected data necessary to calculate the carrier's prospective CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for each of its study areas in the upcoming funding year. The funding year shall be July 1 of the current year through June 30 of the next year. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories. (4) Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the carrier is ultimately eligible based on its actual common line and consumer broadband-only loop cost and revenue data during the relevant period. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories.

Sikich CPA LLC

Summary of the High Cost Support Mechanism Beneficiary Audit Reports Released: August 2024.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment B Lumos Telephone of Botetourt, Inc. (VA)	2	• No significant findings.	$711,378	$16,587	$16,587	N
Attachment C Manti Telephone Company	0	• Not applicable	$821,730	$0	$0	N/A
Total	**2**		**$1,533,108**	**$16,587**	**$16,587**	

Attachment B

HC2024LR001_

Available For Public Use

Lumos Telephone of Botetourt, Inc. (VA)

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

USAC Audit No. HC2024LR001

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EXECUTIVE SUMMARY

May 30, 2024

Tim Pressley
Manager External Affairs
Lumos Telephone of Botetourt, Inc.
One Lumos Plaza
PO Box 1068
Waynesboro, VA 22980

Dear Mr. Pressley:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Lumos Telephone of Botetourt, Inc. (Beneficiary), study area code 190249 disbursements for the year ended December 31, 2022, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 51 and 54, as well as other program requirements (collectively, FCC Rules). Compliance with Federal Communication Commission (FCC) Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination disclosed 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 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.

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

Sincerely,

Jeanette Santana Gonzalez

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

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect and Recommended Recovery[1] CAF ICC[2]	Total
Finding #1: 47 C.F.R. § 51.917(d)(1)(v) - Inaccurate Revenue: Interstate Switched Access Revenues. The Beneficiary did not include Direct Trunk revenue in its Interstate Switched Access Revenues.	$14,087	$14,087
Finding #2: 47 C.F.R. § 51.917(b)(4) & 47 C.F.R. § 51.917(d)(1)(iii) – Improper Inclusion of Costs in Eligible Recovery. The Beneficiary erroneously included exogeneous cost projections in CAF ICC calculation and failed to revise it to exclude the cost.	$2,500	$2,500
Total	**$16,587**	**$16,587**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 190249, 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 FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	CAF ICC (A)	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$14,087	$14,087	NA
Finding #2	$2,500	$2,500	NA
Mechanism Total	**$16,587**	**$16,587**	

[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.
[2] The CAF ICC program year provides for the disbursement of funds on a July to June basis, with true-up payments disbursed two years after the program year. The true-up payment for the 2018 – 2019 CAF ICC program year was disbursed from July 2020 to June 2021 (based on data submitted in June 2020) and the true-up payment for the 2019 – 2020 CAF ICC program year was disbursed from July 2021 to July 2022 (based on data submitted in June 2021). The audit period includes an examination of disbursements paid in the calendar year 2021; therefore, the monetary effect of this Finding accounts for the last six months of the true-up payment that occurred from January 2021 to June 2021 which corresponds to the 2018–2019 program year and the first six months of the true-up payment that occurred from July 2020 to December 2020 corresponds to the 2019 – 2020 program year.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2019-2022	2022	$711,378
Total			**$711,378**

BACKGROUND

The Beneficiary is a cost-based 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.

C. Line Count Records

AAD obtained and examined the Beneficiary's line count records. AAD used computer-assisted auditing techniques to analyze the data files and determine 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.

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.

DETAILED AUDIT FINDINGS

FINDING #1: 47 C.F.R. § 51.917(d)(1)(v) - Inaccurate Revenue: Interstate Switched Access Revenues

CONDITION

AAD obtained and examined the Beneficiary's Tariff Review Plan (TRP) and general ledger to determine whether the Beneficiary reported accurate Interstate Switched Access Service Revenues (Interstate Revenues) for High Cost program purposes for Program Years 2019 – 2020 and 2020 - 2021. Although the total Interstate Revenues identified on the Beneficiary's TRP agreed to the revenues reported by the Beneficiary, the Beneficiary did not include Direct Trunk revenue in the TRP or in its reported revenues. The differences are summarized below:

Program Years	Per Tariff Review Plan and Reported to USAC (A)	Per the General Ledger / Billing (B)	Difference Over / (Under) (C) = (B) – (A)
2019 - 2020	$37,820	$51,747	($13,927)
2020 - 2021	$18,907	$33,153	($14,246)
		Total	**($28,173)**

Per the FCC rules, 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.[3] Because the Beneficiary's supporting documentation (the general ledger) did not agree with the amount of Interstate Revenue that was reported, AAD concludes that the Beneficiary did not report accurate Interstate Revenue. Per the FCC Rules, the true-up revenues from an access service are equal to the projected demand minus the actual realized demand for that service times the default transition rate for that service.[4] Thus, AAD used the general ledger and billing as the basis for the actual realized demand for the Interstate revenue. The Beneficiary must report accurate Interstate Revenue for High Cost program purposes.

CAUSE

The Beneficiary did not have adequate knowledge or adequate systems in place for collecting, reporting, and monitoring data to report accurate Interstate Revenue for High Cost purposes. The Beneficiary confirmed the Direct Trunk revenues were excluded from the true up calculations in error.[5]

[3] See 47 C.F.R § 51.917(d)(1)(v)(2020).
[4] *See* 47 CFR § 51.917(b)(6)(2020).
[5] Response received on February 7, 2024 from Tim Pressley, Manager External Affairs, via INQ #8.

EFFECT

The monetary effect of this finding is $14,087. AAD calculated the monetary effect by adding the understated amount to the total interstate revenue amount reported by the Beneficiary in its CAF ICC filing for the respective periods. AAD summarized the results, as follows:

Support Type	Monetary Effect and Recommended Recovery
CAF ICC	$14,087
Total	**$14,087**

RECOMMENDATION

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

The Beneficiary must ensure it becomes familiar with FCC requirements and implements an adequate system to report accurate data for High Cost program purposes to demonstrate compliance with the FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary collects and retains documentation and establish additional controls to ensure final revenues reported in its CAF ICC filings reconcile to the general ledger. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> The beneficiary does not object to the AAD recommendation. Due to a misalignment between accounts on the trial balance, Direct Trunk revenues were incorrectly coded as special access and were not included in CAF ICC True-up revenues. Direct Trunk revenues where included in CAF ICC projections but later excluded in prior period CAF ICC true-up calculations due to the incorrect coding. The coding issue has been corrected and the procedures and processes have been updated to ensure Direct Trunk revenue is reported as Interstate Revenues in future CAF ICC filings.

FINDING #2: 47 C.F.R. § 51.917(b)(4), 51.917(d)(1)(iii) – Improper Inclusion of Costs in Eligible Recovery

CONDITION

AAD obtained and examined the Beneficiary's CAF ICC True-up documentation (e.g., general ledger account detail, supporting invoices, among others) for both program years 2021 and 2022 to determine whether the Beneficiary reported accurate exogenous cost amounts for High Cost program purposes. FCC Rules describe the extent to which rate-of-return carriers may recover a portion of revenues lost due to required rate reductions, and specifically define the revenue requirement that shall be used.[6] Exogenous costs reported for CAF ICC purposes include Telecommunications Relay Service (TRS), FCC Regulatory and North American Number Plan Association (NANPA) fees. The Beneficiary included an estimate of $5,000 in its 2019 CAF ICC projections and true-up for 2021; however, there were no actual related costs for the 2021 or 2022 true-up periods. Inclusion of the exogenous costs in the 2019 projections with no related actual costs incurred erroneously increased eligible funding for 2021.

CAUSE

The process of preparing, reviewing, and approving the CAF ICC filings for the 2019 projection period did not ensure that the Beneficiary reported only the allowable eligible recovery elements in its CAF ICC filings.

EFFECT

Support Type	Monetary Effect and Recommended Recovery
CAF ICC	$2,500
Total	**$2,500**

RECOMMENDATION

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

The Beneficiary must establish preparation, review, and approval processes to ensure its CAF ICC filings do not include incremental costs that are not attributable to the interstate switched access revenue requirement. The Beneficiary may learn more information 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 does not object to the AAD recommendation.

[6] See 47 C.F.R § 51.917(b)(4)(2020); 47 C.F.R § 51.917(d)(1)(iii)(2020).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 51.917(d)(1)(v)(2020)	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.
#1	47 C.F.R. § 51.917 (b)(6)(2020)	***True-up Revenues.*** True-up Revenues from an access service are equal to (projected demand minus actual realized demand for that service) times the default transition rate for that service specified by § 51.909. True-up Revenues from a non-access service are equal to (projected demand minus actual realized net demand for that service) times the default transition rate for that service specified by § 20.11(b) of this chapter or § 51.705. Realized demand is the demand for which payment has been received, or has been made, as appropriate, by the time the true-up is made.
#2	47 C.F.R. § 51.917(b)(4)(2020)	***Revenue Requirement.*** Revenue Requirement is equal to a carrier's regulated operating costs plus an 11.25 percent return on a carrier's net rate base calculated in compliance with the provisions of parts 36, 65 and 69 of this chapter. For an average schedule carrier, its Revenue Requirement shall be equal to the average schedule settlements it received from the pool, adjusted to reflect an 11.25 percent rate of return, or what it would have received if it had been a participant in the pool. If the reference is to an operating segment, these references are to the Revenue Requirement associated with that segment.
#2	47 C.F.R. § 51.917(d)(1)(iii)(2020)	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

Finding	Criteria	Description
		(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.

This concludes the report.

Attachment C

HC2023LR010

Available For Public Use

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
Beneficiary & Contributor Audit Report

High Cost Audit Report

Manti Tel Co

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

USAC Audit No. HC2023LR010

HURLBERT CPA LLC
regulatory audit services

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HURLBERT CPA LLC
regulatory audit services

EXECUTIVE SUMMARY

13 June 2024

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

Dear Ms. Delmar:

Hurlbert CPA., LLC (referred to as “we”) was engaged to conduct a performance audit on the compliance of Manti Telephone Company (Beneficiary), study area code 502282 disbursements for the year ended December 31, 2021. We conducted the audit field work from 1 August 2023 to 24 May 2024.

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’s) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary. Our responsibility is to evaluate the Beneficiary’s compliance with FCC Rules based on our limited scope performance audit.

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.

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

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

Sincerely,

Victor Hurlbert

Vic Hurlbert, CPA
Director
Hurlbert CPA

AUDIT RESULTS AND RECOVERY ACTION

Based on the performance audit objectives to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 32, 36, 51, 54, 64, and 69 and to determine and report on potential instances of fraud, waste and/or abuse; Hurlbert CPA's limited review performance audit procedures identified no instances of noncompliance and no potential instances of fraud, waste, and/or abuse.

PURPOSE, SCOPE AND PROCEDURES

Purpose

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

Scope

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2019	2021	$653,376
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2018-2020	1 January 2019 – 2021	$160,830
High Cost Loop (HCL)	2019	2021	$7,524
Total			**$821,730**

Background

The Beneficiary is an average schedule eligible telecommunications carrier (ETC) that operates in Utah. The Beneficiary provides fiber to the home, internet, television and telephone services as well as home security services.

PROCEDURES

We performed the following procedures:

General Procedures

We obtained and examined the relevant ETC designation order to determine whether the Beneficiary had been designated as an ETC in the study area prior to receiving High Cost program support. We also obtained and examined the Beneficiary's state and/or self-certification letters to determine (1) the timeliness of the filings and (2) whether the filings included the required language that all federal High Cost Program support provided was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

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.

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

Subscriber Listing and Billing Records

We obtained and examined the Beneficiary's subscriber listings and billing records. We 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.

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.

Exchanges

We 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

Summary of the High Cost Support Mechanism Beneficiary Audit Report Released: September 2024.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment D Sledge Telephone Company	13	**Inadequate and Inaccurate Documentation - Payroll Process:** The Beneficiary did not maintain adequate support for payroll-related expense transactions.	$1,183,508	$224,706	$224,706	Partial
Total	**13**		**$1,183,508**	**$224,706**	**$224,706**	

Attachment D

HC2022LR023

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

LIMITED REVIEW PERFORMANCE AUDIT

SLEDGE TELEPHONE COMPANY

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND HIGH COST SUPPORT MECHANISM RULES

USAC AUDIT NO. HC2022LR023

SIKICH®

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SIKICH.COM

Executive Summary

February 29, 2024

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

Dear Ms. Delmar:

Sikich CPA LLC[1] (referred to as "we") was engaged to conduct a limited review performance audit on the compliance of Sledge Telephone Company (Beneficiary or STC), study area code (SAC) **280466**, for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. Sikich conducted the audit field work from May 9, 2022, to February 29, 2024.

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 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.

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's) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary's management. Sikich's responsibility is to evaluate the Beneficiary's compliance with FCC Rules based on our limited-scope performance audit.

[1] Effective December 14, 2023, we amended our legal name from "Cotton & Company Assurance and Advisory, LLC" to "Sikich CPA LLC" (herein referred to as "Sikich"). Effective January 1, 2024, we acquired CLA's federal practice, including its work for the Universal Service Administrative Company.

Based on the test work performed, our examination disclosed 13 detailed audit 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.

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 third party upon request.

Audit Results and Recovery Action

Our performance audit procedures identified 13 detailed audit findings, which we have summarized below.

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 1, 47 C.F.R. § 54.320(b)(2018) – Inadequate/Lack of Documentation: Land and Support, Central Office Equipment (COE), and Cable Wire & Facilities (CWF) Assets. The Beneficiary did not have adequate support to substantiate values of Land and Support and COE assets. Additionally, the Beneficiary did not provide supporting documentation for CWF assets.	($8,105)	($1,315)	$0	($9,420)	$0
Finding No. 2, 47 C.F.R. § 54.320(a)(b)(2018) and 47 C.F.R. § 64.901(2018) – Inadequate and Inaccurate Documentation: Payroll Process. The Beneficiary did not maintain adequate support for payroll-related expense transactions.	$67,297	$87,447	$0	$154,744	$154,744
Finding No. 3, 47 C.F.R. § 32.2000(e)(6)(2018) – Lack of Continuous Property Records (CPRs) for CWF. The Beneficiary did not maintain CPRs for its copper fiber asset balance.	$17,895	$37,814	$0	$55,709	$55,709
Finding No. 4, 47 C.F.R. § 32.2000(g)(2)(2018) – Inaccurate Depreciation Expense and Accumulated Depreciation. The Beneficiary did not use the required method to calculate depreciation expense and accumulated depreciation.	($7,858)	($13,944)	$0	($21,802)	$0

[2] The High Cost Program does not pay additional support in the event of a finding resulting in an underpayment.

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 5, 47 C.F.R. § 32.12(a)(2018) – Unrecorded Retirement of COE Asset. The Beneficiary posted an adjustment for retired COE assets in the COE CPR but did not account for this adjustment in its general ledger.	($397)	($1,218)	$0	($1,615)	$0
Finding No. 6, 47 C.F.R. § 64.901(2018) and 47 C.F.R. § 54.320(b)(2018) - Inaccurate Reporting of CWF Assets. The Beneficiary did not report an accurate balance for Part 32 account 2410.	$207	$719	$0	$926	$926
Finding No. 7, 47 C.F.R. § 64.901(2018) and 47 C.F.R. § 32.6112(b)(2018) – Inaccurate Distribution of Labor Clearing and Overhead Expenses. The Beneficiary did not accurately distribute overhead amounts for the period as of December 31, 2018.	$2,757	$3,758	$0	$6,515	$6,515
Finding No. 8, 47 C.F.R. § 36.121(b)(c)(d)(2018) – Inaccurate Reporting: COE Assets. The Beneficiary did not accurately report balances for Part 32 accounts 2210 and 2230.	$1,496	$2,241	$0	$3,737	$3,737
Finding No. 9, 47 C.F.R. § 54.320(b)(2018) – Inadequate Supporting Documentation – Expenses. The Beneficiary was unable to provide adequate documentation for sampled expenses.	$6,877	$11,243	$0	$18,120	$18,120
Finding No. 10, 47 C.F.R. § 64.901(b)(3)(ii)(2018) and 47 C.F.R. § 54.320(b)(2018) – Inaccurate Expenses and Accrual Allocation. The Beneficiary inaccurately allocated expenses and included costs that it allocated based on inaccurate payroll allocation factors.	($2,057)	($2,407)	$0	($4,464)	$0
Finding No. 11, 47 C.F.R. § 54.7(a)(2018), FCC 15-133(2015), and FCC 18-29(2018) – Support Not Used	$1,180	$1,814	$0	$2,994	$2,994

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
for Intended Purpose of Federal Universal Service Support. The Beneficiary recorded expenses to its Executive Expense account 6710 and General Admin Expense account 6720 that were not related to the provision, maintenance, and upgrade of telecommunications facilities.					
Finding No. 12, 47 C.F.R. §32.12(a)(2018) – Inaccurate Reporting of Expense – Outside of Data Period. The Beneficiary included costs for services that occurred before and after the 2018 data period within its cost study.	$11,332	$1,605	$0	$12,937	$12,937
Finding No. 13, 47 C.F.R. § 54.320(b)(2018) and 47 C.F.R. § 64.901(2018) – Inadequate Supporting Documentation – Expense and Inaccurate Reporting: Cost Study Adjustments – Assets and Expenses. The Beneficiary included costs that it allocated based on payroll allocation factors that were unsupported for employees that did not maintain timekeeping records. In addition, the Beneficiary did not provide adequate documentation to support that it developed the allocation factor on a cost-causative basis.	$3,617	$2,708	$0	$6,325	$6,325
Total Net Monetary Effect	**$94,241**	**$130,465**	**$0**	**$224,706**	**$262,007**

USAC Management Response

USAC's High Cost Program management will review the recommendation internally and make a determination accordingly.

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

	CAF ICC (A)	CAF BLS (B)	HCL (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (If Any) From Auditor Recommended Recovery
Finding #1	$0	($8,105)	($1,315)	($9,420)	N/A
Finding #2	$0	$67,297	$87,447	$154,744	N/A
Finding #3	$0	$17,895	$37,814	$55,709	N/A
Finding #4	$0	($7,858)	($13,944)	($21,802)	N/A
Finding #5	$0	($397)	($1,218)	($1,615)	N/A
Finding #6	$0	$207	$719	$926	N/A
Finding #7	$0	$2,757	$3,758	$6,515	N/A
Finding #8	$0	$1,496	$2,241	$3,737	N/A
Finding #9	$0	$6,877	$11,243	$18,120	N/A
Finding #10	$0	($2,057)	($2,407)	($4,464)	N/A
Finding #11	$0	$1,180	$1,814	$2,994	N/A
Finding #12	$0	$11,332	$1,605	$12,937	N/A
Finding #13	$0	$3,617	$2,708	$6,325	N/A
Total	**$0**	**$94,241**	**$130,465**	**$224,706**	

Background and Program Overview

<u>Background</u>

The Beneficiary, STC, is a cost-based Eligible Telecommunications Carrier (ETC) that operates in the state of Mississippi. In addition to providing local telephone exchange carrier services, STC provides internet to customers in West Central Mississippi. The Beneficiary is a wholly owned subsidiary of Sunflower Enterprises, Inc. (SEI), a holding company that also owns 100 percent of Lakeside Telephone Company (LTC). SEI allocates its expenses between STC and LTC.

<u>Program Overview</u>

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 collection and 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 HCP, a component of the USF, ensures that consumers in rural areas of the country have access to telecommunications services—and pay rates for those services—that are reasonably comparable to the 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 (HCL) Support:** HCL is available for rural companies operating in service areas where the cost to provide service exceeds 115 percent of the national average cost per loop.

- **Rate-of-Return Incumbent Local Exchange Carrier (ILEC) Connect America Fund (CAF) Intercarrier Compensation (ICC) Support:** CAF ICC support is available to rate-of-return ILECs to assist them in offsetting ICC 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 percent 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 is a reform of the Interstate Common Line Support (ICLS) that 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 FCC Rules for the 2020 disbursement period.

Scope

The chart below summarizes the HCP support included in the audit scope.

High Cost Support	Data Period	Disbursement Period	Disbursement Audited
CAF BLS	2018	2020	$273,720
HCL	2018	2020	$584,744
CAF ICC	2017-2019	2020	$325,044
		Total	**$1,183,508**

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 to determine whether 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 HCP to determine whether the Beneficiary complied with 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 FCC Rules for the support mechanisms identified in the audit scope.

C. **Fixed Assets**
We obtained and examined the Beneficiary's CPRs work orders, invoices, and related documentation to determine whether the Beneficiary reported accurate balances for central office switching equipment, as well as CWF 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, and 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 the balances to the balances utilized to calculate HCP 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 No. 1, 47 C.F.R. § 54.320(b)(2018) – Inadequate/Lack of Documentation: Land and Support, COE, and CWF Assets

Condition

We obtained and examined the Beneficiary's general ledger, CPRs, and cost study balances to determine whether the Beneficiary accurately reported the asset balances. We also tested a non-statistical sample of three Land and Support assets totaling $258,076, eight COE assets totaling $372,322, and 35 CWF assets totaling $896,340 based on the samples' high dollar value and the investment impact on the Beneficiary's HCP support. We noted the following exceptions:

Inadequate Documentation – Land and Support and COE Assets

We identified exceptions in two of the three Land and Support asset samples and in three of the eight COE asset samples, as follows:

1. The documentation the Beneficiary provided to support two Land and Support asset samples was not sufficient to substantiate the value of the samples as the Beneficiary only provided check images to support Sample 1 and did not provide itemized receipts for Sample 2. Below, we provide a summary of the exceptions noted:

Land and Support Assets					
Sample #	Account	Total Value of Sample	Unsupported Amount (A)	Non-Regulated % Previously Removed (B)	Remaining Amount to be Removed (A – B)
1	2116	$8,928	$8,928	**$263**[3]	**$11,132**
2	2121	$228,269	$2,467		
		Total	**$11,395**		

2. We determined that the documentation the Beneficiary provided to support three COE asset samples was not sufficient to substantiate the value of the assets. In our review of the supporting documentation, the Beneficiary noted that Samples 5 and 6 were additional components placed on a work order already covered under Sample 1. Because Samples 1, 5, and 6 are all part of the same work order, they are supported by the same documentation. However, the supporting documentation the Beneficiary provided consisted of a vendor quote and a Rural Utilities Service (RUS) reporting form and none of the support received could be agreed back to the value of the work order or the individual samples. Additionally, the Beneficiary stated that it did not save

[3] This represents the amount previously removed as a result of applying the 2.31% non-regulated allocator to the submitted HC balances that should be taken into consideration when accumulating the unsupported balance to be removed.

documentation regarding its actual process for allocating costs, such as overhead charges to the work order. Below, we provided a summary of the exceptions noted:

COE Assets					
Sample #	Account	Total Value of Sample	Unsupported Amount (A)	Non-Regulated % and Amount Previously Removed (B)	Remaining Amount to be Removed (A-B)
1	2212	$103,392	$335,892[4]	$131,608[5]	$204,284
5	2212	$104,179			
6	2212	$34,726			

Lack of Documentation – CWF Assets
The Beneficiary maintained support documentation for CWF assets by year that included allocated salaries, allocated overhead, and other miscellaneous costs accumulated in the Construction in Progress account 2003 that were transferred to CWF account 2423. We examined the supporting documentation for the 35 CWF asset samples selected and identified the following exceptions:

1. For CWF asset additions made in 2008 and 2011, we were able to reconcile the costs of the individual assets per the CPR to the total project costs and supporting documentation. However, the Beneficiary could not provide details of how the 2008 and 2011 costs were allocated to derive the cost of each asset recorded in the CPR for those years. In addition, the Beneficiary used account 242310 (a subaccount of account 2423 that rolls up to Part 32 Parent account 2410) to report all CWF assets and we determined that the Beneficiary recorded all of the costs to the correct Part 32 parent account. However, because the Beneficiary was unable to provide support on how it allocated the total project costs to the individual asset values per the CPR, we were unable to determine whether the Beneficiary properly reported the asset values at the individual asset level, which could potentially result in improper retirement values for these assets in the future. Due to not noting any exceptions with regard to asset classification at the Part 32 parent account level, we did not calculate a monetary effect for the Beneficiary's 2008 and 2011 CWF assets in this finding.

2. The following transactions were entries that made up a portion of the total CWF asset balance for the years 2012 through 2018; however, the Beneficiary was unable to provide any supporting documentation to verify $66,999 in CWF assets:

[4] The total unsupported amount does not equal the sum of the sample amounts shown because we expanded scope to remove the entire Work Order related to the samples in the amount of $335,892, as no supporting documentation could be provided.
[5] This represents the amount previously removed as a result of applying the 39.18% non-regulated allocator to the submitted HC balances that should be taken into consideration when accumulating the unsupported balance to be removed.

Unsupported Asset Amounts by Installation Year		
Data Period	**Description**	**Amount**
2012	119040 · A/R – Affiliates	$19,255
2012	119040 · A/R – Affiliates	$4,103
2013	119040 · A/R – Affiliates	$6,187
2014	119040 · A/R – Affiliates	$6,057
2014	611600 · Other Work Equip Expense	$6,592
2014	Unlocated	$194
2015	119040 · A/R – Affiliates	$6,541
2016	Est M&S	$325
2016	119040 · A/R – Affiliates	$6,386
2017	119040 · A/R – Affiliates	$5,505
2018	223200 · Circuit Equipment	$5,854
Total		**$66,999**

Below, we summarize the effect of the exceptions to Part 64 and Part 36 balances resulting from the inadequate or missing documentation for Land and Support assets, COE assets, and CWF assets described above:

Recalculation of Part 64			
Account	**As Reported Part 64 Balance (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement (A-B)**
Land and Support Assets (Acct 2110)	$832,679	$821,547	$11,132
COE Switching (Acct 2210)	$268,151	$63,867	$204,284
CWF Investment (Acct 2410)	$3,399,285	$3,332,286	$66,999
Land and Support Accumulated Depreciation (Acct 3100 -2100)	$592,436	$584,516	$7,920
Accumulated Depreciation of Central Office Switching (Acct 3100-2210)	$227,187	$54,110	$173,077
CWF Accumulated Depreciation (Acct 3100-2410)	$1,874,172	$1,837,233	$36,939
Land and Support Deferred Tax (Acct 4340-2100)	$62,889	$62,048	$841
Deferred Taxes Central Office Switching (Acct 4340-2210)	$21,018	$5,006	$16,012
CWF Deferred Taxes (Acct 4340-2410)	$266,438	$261,187	$5,251
Network Support Expense (Acct 6110)	$22,725	$22,421	$304
General Support Expense (Acct 6120)	$69,437	$68,509	$928
COE Switching Expense (Acct 6210)	$33,240	$7,917	$25,323
CWF Expense (Acct 6410)	$11,217	$10,996	$221

Recalculation of Part 64			
Account	As Reported Part 64 Balance (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Land and Support Depreciation Expense (Acct 6560-2110)	$13,439	$13,259	$180
Depreciation Expense COE Switching Expense (Acct 6560-2210)	$33,461	$7,970	$25,491
Depreciation Expense (Acct 6560-2410)	$203,825	$199,808	$4,017
CWF (DL700)	$3,399,285	$3,332,286	$66,999
Category 1 Investment for Cable and Wire (DL710)	$3,324,302	$3,258,781	$65,521

Impact on COE Switching Categorization[6]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Category 3-Local Switching	$264,386	$60,102	$204,284

Impact to CWF Categorization[7]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Category 1 - 1.3 Jointly Used	$3,312,390	$3,246,869	$65,521
Category 2 - Ex Trk x/WB	$6,468	$6,340	$128
Category 2 - WB Trunk	$52,077	$51,047	$1,030
Category 3 - Joint MSG x/WB	$16,170	$15,850	$320
Total	**$3,387,105**	**$3,320,106**	**$66,999**

Beneficiaries must maintain copies of invoices, detailed allocation schedules, and other relevant documentation to substantiate that they recorded their assets in the proper amount and to the proper general ledger account.

[6] The Beneficiary only reported Category 3 for account 2210 COE Switching. Reported balances for COE Categorization for 2020 HCP disbursements are only reported as of December 31, 2018.

[7] Reported balances for CWF Categorization for 2020 HCP disbursements are only reported as of December 31,2018. Additionally, the balances are reported as an average balance; therefore, the balances reported for Category 1 in the "Recalculation of Part 64" table and the "Impact to CWF Categorization" table are different.

Because the Beneficiary did not provide adequate documentation to substantiate the values of its Land and Support assets and its COE assets, we could not verify that the Beneficiary did not record the asset transactions in the proper amount and therefore did not accurately report the cost study balances for HCP purposes. Further, because the Beneficiary was unable to provide documentation for the allocation of CWF assets, we were unable to determine if the Beneficiary had recorded the assets in the proper amount and to the proper general ledger account or whether the Beneficiary had accurately reported the cost study balances for HCP purposes.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to ensure proper retention of records to demonstrate assets were recorded to the proper general ledger account for HCP purposes in the proper amount and for 10 years from the time of receipt of the funding for the filing in scope, as required by FCC rules.[8]

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances—as stated in the "Recalculation of Part 64", "Impact on COE Switching Categorization" and "Impact to CWF Categorization" tables above—for the period ending December 31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($8,105)
HCL	($1,315)
CAF ICC	-
Total	**($9,420)**[9, 10]

Recommendations

We recommend that the Beneficiary develop and implement policies, procedures, and processes to (1) retain source documentation to support allocations made within work orders, (2) retain adequate source documentation to demonstrate that it recorded asset balances in its CPRs and general ledger in the proper amount, and (3) maintain documentation to demonstrate compliance with FCC Rules.

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

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[8] *See* 47 C.F.R § 54.320(b) (2018).

[9] The total monetary effect and recommended recovery do not include the exception noted for CWF assets in 2008 and 2011 because we were able to verify the total value of the assets.

[10] The High Cost Program does not pay additional support in the event of a finding resulting in an underpayment.

Beneficiary Response
The Beneficiary disagreed with the finding, noting that USAC only requires Beneficiaries to maintain records for 10 years. Specifically, the Beneficiary noted that for COE and Land and Support assets, the documentation requested for the audit is over 15 years old and could not be located by the Beneficiary.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response
The Beneficiary disagreed with our finding as it does not believe it has to maintain records for more than 10 years. However, because FCC Rules require the Beneficiary to maintain documentation to support assets reported for HCP purposes for 10 years from the receipt of HCP support, and because the sampled assets were reported in the 2020 disbursement period, the records requested were required to be maintained. Accordingly, our position on this finding remains unchanged.

Finding No. 2, 47 C.F.R. § 54.320(a)(b)(2018) and 47 C.F.R. § 64.901(2018) – Inadequate and Inaccurate Documentation: Payroll Process

Condition
We obtained and reviewed the allocation of payroll costs, employee timesheets, labor distributions by account, and employee job descriptions from the Beneficiary's parent company to determine whether the Beneficiary had properly allocated and recorded payroll and related costs to the correct Part 32 accounts for HCP purposes.

The Beneficiary's payroll process narrative states:

> *Sunflower Enterprises, Inc (SEI) serves as common paymaster for subsidiaries STC and LTC. An allocation is made between STC and LTC for total payroll depending on the duties of the employee. Certain inside employees will charge 100% of their time to the subsidiary where they reside and spend all of their time. Others are allocated based on where they spend their time. Due to the small size of company workforce the allocation percentages are derived by the accounting staff conducting one-on-one interviews with the workforce and management to develop an estimated allocation percentage. This procedure is used in lieu of any formal time study or other process as it is felt by company management the results of these "interviews" are more representative of actual work performed.*[11]

[11] The Beneficiary provided its payroll process narrative in response to Sikich inquiry #60.1.

Based on our understanding of the Beneficiary's payroll process depicted above and the documentation we reviewed, we identified the following inaccurate/inadequate documentation and non cost-causative allocation exceptions below:

- The Beneficiary did not maintain supporting documentation for the one-on-one interviews it used to develop its estimated allocations for the six employees who did not spend 100 percent of their time supporting a single affiliate and did not maintain timesheet records.[12]
- The one-on-one interview methodology the Beneficiary used to develop its estimated allocations for six employees is not considered to be a cost causative method utilized for the development of the estimated allocation as it does not allow for verifying that employee salaries were booked according to function performed, as required.[13]
- When verifying payroll hours for the two employees with timesheets, we noted differences between the payroll hours originally used in the allocations and the payroll hours we verified based on the employees' timesheets.[14]
- The Beneficiary recorded unsupported labor hours for one employee with no timesheet records to account 6111 in the 2018 data period.[15] As the Beneficiary uses the amounts recorded in account 6111 to develop its valuation of its CWF assets for the year, its 2018 CWF assets were therefore incorrect for reporting purposes.[16]

Because we identified the above exceptions with the Beneficiary's payroll process, we removed the payroll balances for employees with no timesheet records from the nine month labor distributions as of September 30, 2018, and the three month labor distribution as of December 31, 2018.

Below, we summarize the effect of the exceptions to Part 64 and Part 36 balances resulting from the exceptions identified in the Beneficiary's payroll process:

[12] The Beneficiary only required two STC employees to maintain timesheet records. Interviews were not necessary for the two employees that maintained timesheets.
[13] *See* 47 C.F.R. § 32.2, Basis of the Accounts.
[14] We adjusted and accounted for differences in payroll hours in Finding No. 6.
[15] We also noted that, from 2012 through 2015, the Beneficiary recorded payroll expenses to account 6111 for two employees who had labor dollars but no timesheet record. In 2016 through 2017, the Beneficiary recorded payroll expenses to account 6111 for one employee who had labor dollars but no timesheet record. We accounted for the unsupported expenses related to these employees during our asset testing and included the expenses in the adjusted amounts identified in Finding No. 6.
[16] We adjusted and accounted for the exception identified in the 2018 labor distribution in Finding No. 6.

Recalculation of Part 64			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Central Office Transmission (Acct 2230)	$1,311,943	$1,310,329	$1,614
Accumulated Depreciation CWF (Acct 3100_2410)	$1,874,172	$1,867,659	$6,513
Network Support Expense (Acct 6110)	$22,725	$10,239	$12,486
General Support Expense (Acct 6120)	$69,437	$56,951	$12,486
Central Office Switching Expense (Acct 6210)	$33,240	$30,452	$2,788
Central Office Transmission Expense (Acct 6230)	$107,808	$101,635	$6,173
Network Operations Expense (Acct 6530)	$91,932	$40,448	$51,484
Customer Services Expense (Acct 6620)	$100,533	$52,667	$47,866
Corporate Expense (Acct 6710)	$52,476	$30,157	$22,319
General and Administrative Expense (Acct 6720)	$288,426	$142,515	$145,911

Impact on Central Office Transmission Categorization[17]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Category 4.11 Wideband-Line	$651,274	$650,461	$813
Category 4.12 Ex Trk x/WB	$42,174	$42,121	$53
Category 4.13 Joint MSG	$438,570	$438,022	$548
Category 4.22 PL	$42,174	$42,121	$53
Category 4.23 Joint MSG	$118,438	$118,290	$148
Total	**$1,292,630**	**$1,291,015**	**$1,615**

[17] Reported balances for account 2230 Central Office Transmission Categorization for 2020 HCP disbursements are only reported as of December 31,2018. Additionally, the Beneficiary reported the average balance; the balances reported for Part 36 and Part 64 will therefore differ.

Because the Beneficiary did not require all employees to maintain timekeeping records, we cannot determine whether the Beneficiary accurately calculated via the labor distributions and reported its payroll costs for HCP purposes.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, monitoring, and maintaining timekeeping records for employees. Specifically, the Beneficiary did not maintain timesheets or document hours spent performing duties through time studies for 10 years from the time of receipt of the funding for the filing in scope, as required by FCC rules,[18] but rather stated that the allocation of time spent on duties was maintained in the minds of six of eight employees.

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances—as stated in the "Recalculation of Part 64" and "Impact on Central Office Transmission Categorization" tables above—for the period ending December 31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$67,297
HCL	$87,447
CAF ICC	-
Total	**$154,744**[19]

Recommendations

We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend the Beneficiary maintain documentation to support its payroll entries for all employees and develop policies and procedures to ensure that it properly accounts for payroll costs in its records for employees that maintain timekeeping records.

Further, because the issue with the Beneficiary not maintaining payroll timekeeping records likely existed prior to the current audit period, we also recommend that USAC management collect and review documentation for the Beneficiary's submissions to HCP to recalculate appropriate support amounts for years prior to and subsequent to the 2018 data period.

[18] *See* 47 C.F.R § 54.320(b) (2018).

[19] Although the inappropriate one-on-one interview methodology exceptions identified impacted 2012-2017 periods, we did not calculate a monetary effect or recommend recovery for those periods as they were out of scope for the purposes of this audit.

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

Beneficiary's Response

The Beneficiary disagreed with this finding, noting that it can prove the sampled salaries were paid and that it believes the removal of payroll balances for employees without time records is an error as it does not comply with the established hierarchy of cost assignment in 47 C.F.R. § 64.901. Specifically, the Beneficiary noted:

- The auditors should have followed Section 64.901(b)(2)-(3) to (i) come up with an allocation process to reallocate the salaries on a cost causative basis at the Beneficiary (between STC and LTC) and Part 32 levels or (ii) used the general allocator approach described in 47 C.F.R. § 64.901(b)(3)(c) when direct allocations could not be determined.
- That the annual employee interviews it conducts to assess the allocation between regulated and non-regulated activities are appropriate and supported as they constitute a direct analysis on which to base salary allocations.
- It submitted three different payroll allocation scenarios which it feels follows the hierarchy of 47 C.F.R. § 64.901.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response

The Beneficiary did not adequately support allocated payroll costs because it did not maintain documentation that would allow for verifying that payroll allocation factors used were cost causative in accordance with FCC rules. In addition, the alternative allocation methods provided were determined to not be in compliance with 47 C.F.R. § 64.901. Therefore, our position on this finding remains unchanged. Specifically:

- With regards to the various allocation percentages per employee that it used to allocate costs between STC and its affiliate LTC, the Beneficiary was unable to provide documentation to support that it developed the allocation percentages on a cost-causative basis.
- With regard to the various allocation percentages per employee that it used to allocate costs at the Part 32 account level, the Beneficiary was unable to provide documentation to support hours worked and allocated to Part 32 accounts because it only asked employees to provide verbal estimates of how they spent their time, rather than maintaining timesheets or performing studies that would have supported a cost-causative allocation basis.
- With regard to the alternative allocations submitted in Beneficiary responses 1 and 2 below, Sikich does not agree that the Beneficiary is correctly applying the criteria to allocate payroll for all employees between STC and LTC, or to allocate payroll at the Part 32 level for STC based on the language included in 47 C.F.R. § 64.901 and 47 C.F.R. § 32.2. Specifically:

- Response 1, Alternative Method 1: We disagree that this method is proper because the Beneficiary would only be taking one of the two entities' account balances into consideration when developing the allocator. We also disagree that the method is proper because it improperly allocates salaries to all general ledger expense accounts. Per 47 C.F.R. § 32.2, entities should record costs to the Part 32 account that relates to the function performed. Sikich also believes that the Beneficiary is not using 47 C.F.R. § 64.901 correctly; 47 C.F.R. § 64.901 is intended to serve as the rule in allocating costs between regulated and non-regulated activities, but the Beneficiary is instead referencing and specifically using 47 C.F.R. § 64.901 (b)(3)(iii) as its basis for applying a general allocator to allocate costs among Part 32 accounts.
- Response 1, Alternative Method 2: We disagree that the method is proper as well, as it improperly allocates salaries to all general ledger expense accounts. Per 47 C.F.R. § 32.2, entities should record costs to the Part 32 account that relates to the function performed.
- Response 2, Alternative Method: The revised allocation method allocating salaries between STC and LTC appears to be reasonable; however, it does not change the outcome of this finding because it does not change the allocation method used to further allocate the salaries to the entity-level Part 32 accounts. We continue to disagree with the revised allocation because it still uses the method from the previous scenario that we deemed to be improper, as it allocates salaries to all general ledger expense accounts.

Finding No. 3, 47 C.F.R. § 32.2000(e)(6)(2018) – Lack of CPR for CWF Assets

Condition
We obtained and examined the Beneficiary's general ledger, CPR, and cost study balances to determine whether the Beneficiary accurately reported its CWF asset balances for HCP purposes.

When reconciling the Beneficiary's CWF CPR to its general ledger, we determined that the Beneficiary did not maintain CPR detail for copper fiber assets in the amount of $512,305. According to the Beneficiary:

> *CWF CPRs were created in the year 2011. The Sunflower exchange was rebuilt with Fiber to the Home (FTTH) facilities, except for an area that was primarily made upon the town area. There was a retirement of copper facilities at that time, except for the estimated cost of the copper in town. The town area had been constructed recently using telephone company labor, therefore the accountants thought they had a reasonable idea of the cost for that construction ($512,305). The fiber facilities were constructed under two different contracts. One of the contracts closed in 2008 and the other one closed in 2011. You will notice that all fiber cable has either 2008 or 2011 as the installation date. We elected not to prepare CWF CPRs until all construction was complete and all of the maps used as a basis for the CPRs were drawn. All fiber records are generated from the maps. The beginning balance for the Buried Cable CPRs was $ 2,728,104.68 which was the ending balance of this account for the year ($3,240,409.68) minus the amount of*

$512,305.00 that was set aside for the remaining copper cable. We did not prepare CPRs for the remaining copper facilities at the time because it was anticipated to be replaced with fiber soon. It has not been feasible to accomplish that since.

Below, we summarize the effect of the exceptions to Part 64 and Part 36 balances resulting from the lack of documentation of CPR detail for the Beneficiary's copper fiber assets:

Recalculation of Part 64			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement (A-B)**
CWF Investment (Acct 2410)	$3,399,285	$2,886,980	$512,305
CWF Accumulated Depreciation (Acct 3100-2410)	$1,874,172	$1,591,716	$282,456
CWF Deferred Taxes (Acct 4340-2410)	$266,438	$226,283	$40,155
CWF Expense (Acct 6410)	$11,217	$9,526	$1,691
CWF Depreciation Expense (Acct 6560-2410)	$203,825	$173,107	$30,718
CWF (DL700)	$3,399,285	$2,886,980	$512,305
Category 1 Investment for Cable and Wire (DL710)	$3,324,302	$2,823,298	$501,004

Impact to CWF Categorization[20]			
Category	**As Reported Part 36 Cost Study (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement (A-B)**
Category–1 - 1.3 Jointly Used	$3,312,390	$2,811,386	$501,004
Category–2 - Ex Trk x/WB	$6,468	$5,490	$978
Category–2 - WB Trunk	$52,077	$44,200	$7,877
Category–3 - Joint MSG x/WB	$16,170	$13,724	$2,446
Total	**$3,387,105**	**$2,874,800**	**$512,305**

[20] The Beneficiary only reported balances for CWF asset's Categorization for 2020 HCP disbursements as of December 31,2018. Additionally, the Beneficiary reported the average balance; the balances reported by category for Part 36 and Part 64 will therefore differ.

Cause
The Beneficiary did not maintain a CPR for 10 years from the time of receipt of the funding for the filing in scope, as required by FCC rules[21] to support that it recorded its CWF assets in the proper amount because it had previously anticipated that remaining CWF copper facilities would have been replaced.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances—as stated in the "Recalculation of Part 64" and "Impact to CWF Categorization" tables above—for the period ending December 31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$17,895
HCL	$37,814
CAF ICC	-
Total	**$55,709**[22]

Recommendations
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary develop and implement policies and procedures to ensure that it maintains a CPR that include the required details for all assets included in CWF balances submitted for HCP purposes, as required by FCC Rules.

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

Beneficiary Response
The Beneficiary disagrees with the finding, noting that the company that installed the copper fiber assets does not agree with the exclusion of these assets because the copper investment is providing service to existing subscribers, as it was during time under review. However, the Beneficiary did note that for any future buildouts, the company will keep detailed CPR records at the time of the buildout.

[21] *See* 47 C.F.R § 54.320(b) (2018).
[22] The lack of CPR details for the Beneficiary's CWF assets likely existed prior to the current audit period of 2018; we therefore recommend that USAC management collect and review documentation for the Beneficiary's prior and subsequent HCP submissions to recalculate support as we did not calculate a monetary effect or recommend recovery for other periods prior to or after 2018.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response

The Beneficiary did not maintain CPR details as mandated by 47 C.F.R. § 32.2000(e)(6) and in accordance with the FCC rule that requires Beneficiaries to retain all records needed to support the balances submitted in their filings for 10 years from the time of receipt of funding for the filing in scope. Specifically, as the Beneficiary did not maintain the details of the CWF copper investments that reconciled to the balance included in the CWF total asset balance reported for HCP purposes, the asset balance is not adequately supported. Therefore, our position on this finding remains unchanged.

Finding No. 4, 47 C.F.R. § 32.2000(g)(2)(2018) – Inaccurate Depreciation Expense and Accumulated Depreciation

Condition

We obtained and examined the beginning and ending balances for the Beneficiary's regulated property, plant, and equipment, accumulated depreciation balances, and depreciation expense amounts by asset account group for the filing period ended December 31, 2018 to determine whether the Beneficiary properly computed and reported depreciation expense for HCP purposes. We also examined the Beneficiary's documentation and reviewed the Beneficiary's response to our background questionnaire on its process for calculating depreciation expense.

Based on these reviews, we noted that the Beneficiary did not calculate depreciation expense using the mandatory method of taking the average of the beginning and ending asset balances for each month because it only updated asset balances in the general ledger once at the end of the calendar year/data period. As a result, we were unable to employ the proper methodology for calculating monthly depreciation expense and accumulated depreciation.

Because the Beneficiary did not maintain any other records that would have enabled us to determine the appropriate general ledger balances for its assets during the first 11 months of the year, we recalculated the Beneficiary's depreciation expense using the beginning balance for the 2018 data period for the first 11 months of the year. We then used the proper method of averaging the beginning and ending asset balances for the last month of the 2018 data period.

Below, we summarize the effect of the exception to Part 64 balances resulting from our independent recalculation of depreciation expense for the filing period of December 31, 2018:

Recalculation of Part 64			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Land and Support Accumulated Depreciation (Acct 3100 -2110)	$592,436	$602,524	($10,088)
Accumulated Depreciation of Central Office Transmission (Acct 3100-2230)	$1,002,521	$1,002,283	$238
Accumulated Depreciation of CWF (Acct 3100-2410)	$1,874,172	$1,903,352	($29,180)
Land and Support Depreciation Expense (Acct 6560-2110)	$13,757	$23,845	($10,088)
Depreciation Expense Central Office Transmission Expense (Acct 6560-2230)	$158,941	$158,703	$238
Depreciation Expense of CWF (Acct 6560-2410)	$203,824	$233,004	($29,180)

Cause

The Beneficiary did not have adequate processes in place to ensure that it correctly calculated depreciation expense and accumulated depreciation on a monthly basis using the required methodology.

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated and add the understated account balances, noted in the "Recalculation of Part 64" table above, for the filing period of December 31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($7,858)
HCL	($13,944)
CAF ICC	-
Total	**($21,802)**[23]

[23] The High Cost Program does not pay additional support in the event of a finding resulting in an underpayment.

Recommendations
We recommend that the Beneficiary develop and implement an adequate process to enable it to properly calculate depreciation expense and accumulated depreciation reported for HCP purposes. Specifically, the Beneficiary should develop and implement policies, procedures, and processes that describe how it will implement the required methodology for calculating depreciation by multiplying the asset depreciation rate by the average of the monthly beginning and ending asset balances.

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

Beneficiary Response
The Beneficiary agreed with the finding, however, it noted that because the impact of the finding is not enough to offset cost of hiring the staff needed to produce monthly financials, management will have to review the finding and recommendations before it determines next steps. Specifically, the Beneficiary noted that it appears counter-intuitive for an organization of its size to be required to incur additional costs that would be reimbursable from the funds when its historical operational system has been acceptable in past USAC audits and reviews.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response
We acknowledge the Beneficiary's acceptance of the finding but reiterate that the Beneficiary's current policy of not accounting for asset transactions as they occur, but only once a year, (e.g., adding assets to the proper asset general ledger accounts when the assets are placed in service) does not allow the Beneficiary to calculate depreciation expense based on the average of the monthly beginning and ending asset balances, as required. Accordingly, our position regarding our finding and the associated recommendations have not changed.

Finding No. 5, 47 C.F.R. § 32.12(a)(2018) – Unrecorded Retirement of COE Assets

Condition
We obtained and examined the Beneficiary's general ledger, CPR, and cost study balances to determine whether the Beneficiary accurately reported its COE asset balances for HCP purposes for the filing period as of December 31, 2018.

When reconciling the COE CPRs to the Beneficiary's general ledger, we identified an adjustment made on December 31, 2018 to retire COE assets in the CPR for account 2210 (COE Switching) at an amount of $15,990 and in the CPR for account 2230 (COE Transmission) at an amount of $9,904. However, the Beneficiary did not make corresponding adjustments to its general ledger to account for the retirement of the COE assets, which resulted in a variance between the Beneficiary's CPRs and its general ledger for the period ending December 31, 2018.

Further, we inspected the cost study adjustment entries the Beneficiary made to accounts 2210 and 2230 and noted that the Beneficiary did not make an adjustment to its cost study account balances to account for the retirement of the COE assets.

Below, we summarize the effect of these exceptions to Part 64 and Part 36 balances resulting from the Beneficiary not appropriately recording its retired COE assets:

Recalculation of Part 64			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement (A-B)**
Central Office Switching (Acct 2210)	$268,151	$252,161	$15,990
Central Office Transmission (Acct 2230)	$1,311,943	$1,302,039	$9,904
Accumulated Depreciation of Central Office Switching (Acct 3100-2210)	$227,187	$211,197	$15,990
Accumulated Depreciation of Central Office Transmission (Acct 3100-2230)	$1,002,521	$992,617	$9,904

Impact on Central Office Switching Categorization[24]			
Category	**As Reported Part 36 Balance (A)**	**Sikich Audited Part 36 Balance (B)**	**Variance Overstatement (A-B)**
Category 3-Local Switching	$264,386	$248,396	$15,990
Total	**$264,386**	**$248,396**	**$15,990**

Impact on Central Office Transmission Categorization[25]			
Category	**As Reported Part 36 Balances (A)**	**Sikich Audited Part 36 Balances (B)**	**Variance Overstatement (A-B)**
Category 4.11 Wideband-Line	$651,274	$646,284	$4,990
Category 4.12 Ex Trk x/WB	$42,174	$41,851	$323
Category 4.13 Joint MSG	$438,570	$435,210	$3,360
Category 4.22 PL	$42,174	$41,851	$323

[24] Reported balances for Central Office Switching Categorization for 2020 HCP disbursements are only reported as of December 31, 2018. Additionally, the Beneficiary reported the average balance; the balances reported for Part 36 and Part 64 will therefore differ.

[25] Reported balances for account 2230 Central Office Transmission Categorization for 2020 HCP disbursements are only reported as of December 31,2018. Additionally, the Beneficiary reported the average balance; the balances reported for Part 36 and Part 64 will therefore differ.

Impact on Central Office Transmission Categorization[25]			
Category	**As Reported Part 36 Balances (A)**	**Sikich Audited Part 36 Balances (B)**	**Variance Overstatement (A-B)**
Category 4.23 Joint MSG	$118,438	$117,531	$907
Total	**$1,292,630**	**$1,282,727**	**$9,903**

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to ensure that it properly recorded CPR adjustments of retired COE assets and reported them in the cost study data submitted for HCP purposes.

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances—as stated in the "Recalculation of Part 64," "Impact on Central Office Switching Categorization" and "Impact on Central Office Transmission Categorization" tables above—for the period ending December 31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($397)
HCL	($1,218)
CAF ICC	-
Total	**($1,615)**[26]

Recommendations

Per FCC Rules, Beneficiaries are required to keep financial records in accordance with generally accepted accounting principles.[27] We recommend the Beneficiary develop and implement policies, procedures, and processes to record transactions from its subsidiary schedules to the general ledger to ensure that it reports accurate data for HCP purposes.

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

Beneficiary Response

The Beneficiary agreed with the finding, noting that the company booked retirements in the CPR but inadvertently did not book the retirement in the GL as result of an oversight by its accounting

[26] The High Cost Program does not pay additional support in the event of a finding resulting in an underpayment.
[27] *See* 47 C.F.R. 32.12 (2018).

staff. The Beneficiary noted that it has implemented processes to minimize future risk of this happening.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response
Our response to this finding has not changed.

Finding No. 6, 47 C.F.R. § 64.901(2018) and 47 C.F.R. § 54.320(b)(2018) – Inaccurate Reporting of CWF Assets

Condition
We obtained and examined the Beneficiary's general ledger, CPRs, and cost study balances to determine whether the Beneficiary accurately reported its CWF asset balances. We also tested a non-statistical sample of 35 CWF assets totaling $896,340 for HCP purposes based on high dollar value and proportional to the investment impact on HCP support.

We found that the Beneficiary maintained the supporting details for CWF assets by year, including costs accumulated in account 2003 (Total Plant Under Construction) and transferred to account 2423 (CWF) allocated salaries, allocated overhead, and other miscellaneous costs. We determined that the Beneficiary uses accounts 6111 (Labor Clearing), 6112 (Motor Vehicle Expense), and 6116 (Other Work Equipment Expense) to allocate overhead and other miscellaneous costs, based on the timesheets for the two employees who performed plant-related duties.[28]

Accounts 6111, 6112, and 6116

From our detailed review of accounts 6111, 6112, and 6116, we noted the following exceptions:

(i) The Beneficiary allocated balances for accounts 6111, 6112, and 6116 based on direct labor hours, in which the allocation of the account balances gets cleared to account 2410. We verified the direct labor hours by reviewing the timesheet records for the years 2012 through 2018 and noted the following discrepancies between the labor hours reported in in the labor distribution and the labor hours supported by employee timesheet records:

[28] The Distribution of Labor Per Account Report for the years 2012 through 2018 indicated that not all Beneficiary employees were Outside Plant Installation and Repair (I&R) employees and not all employees recorded labor in accounts 6111, 6112, or 6116. The Beneficiary's two (I&R) employees performed plant-related duties. Per the Beneficiary's process, the timesheets that the Beneficiary used to allocate overhead costs (which include other miscellaneous costs), which ultimately determine the value of the Beneficiary's CWF assets, only included the direct labor hours recorded by the Beneficiary's two I&R employees. Because we determined that the two employees who maintained timesheets performed work for both the Beneficiary and its affiliate (see Finding No. 2), we used access line counts to allocate the employees' time between the two entities.

Year	Period	As Reported Labor Hours	Sikich Verified Labor Hours
2012	January 2012 – September 2012	2,495	2,503
2012	October 2012 – December 2012	801	800
2013	January 2013 – September 2013	2,488	2,548
2013	October 2013 – December 2013	695	665
2013	September 2013 Bonus	3,183	3,213
2014	January 2014 – September 2014	2,259	2,245
2014	October 2014 – December 2014	626	637
2015	January 2015 – September 2015	2,249	2,248
2015	October 2015 – December 2015	651	654
2015	September 2015 Bonus	2,900	2,902
2016	January 2016 – September 2016	2,438	2,486
2016	October 2016 – December 2016	801	754
2016	September 2016 Bonus	3,239	3,240
2017	January 2017 – September 2017	2,601	2,611
2017	October 2017 – December 2017	695	698
2017	September 2017 Bonus	3,296	3,309
2018	January 2018 – September 2018	3,119	2,344[29]
2018	October 2018 – December 2018	695	692[30]

(ii) Account 6111 is intended to record labor costs and benefits plus bonuses for employees who record their time to the account. Based on the exception we identified in Finding No. 2, in which the Beneficiary only required two of its employees to maintain timesheets, we removed the total labor costs and total benefits in account 6111 for employees who did not maintain timesheets for the years 2012 through 2018 as follows:

Year	Period	As Reported Labor Dollars	As Reported Benefits	Sikich Verified Labor Dollars	Sikich Verified Benefits
2012	January 2012 – September 2012	$57,893	$18,976	$30,555	$10,199
2012	October 2012 – December 2012	$31,828	$7,239	$17,514	$4,076

[29] The difference in hours for data period 2018 is also included in Finding No. 7. However, we accounted for the adjustment for the difference in hours in the Effect section of Finding No. 6.
[30] The difference in hours for data period 2018 is also included in Finding No. 7. However, we accounted for the adjustment for the difference in hours in the Effect section of Finding No. 6.

Year	Period	As Reported Labor Dollars	As Reported Benefits	Sikich Verified Labor Dollars	Sikich Verified Benefits
2013	January 2013 – September 2013	$60,936	$10,567	$32,397	$5,727
2013	October 2013 – December 2013	$21,556	$2,341	$16,802	$2,165
2013	September 2013 Bonus	$10,890	$15,424	$7,193	$1,151
2014	January 2014 – September 2014	$65,054	$11,661	$34,826	$6,351
2014	October 2014 – December 2014	$33,471	$16,852	$18,932	$2,027
2015	January 2015 – September 2015	$62,716	$10,647	$31,710	$5,469
2015	October 2015 – December 2015	$33,759	$5,124	$19,709	$3,053
2015	September 2015 Bonus	$14,117	$0	$8,203	$0
2016	January 2016 – September 2016	$63,017	$11,457	$37,172	$6,876
2016	October 2016 – December 2016	$34,995	$4,347	$21,028	$2,662
2016	September 2016 Bonus	$13,962	$0	$8,293	$0
2017	January 2017 – September 2017	$65,399	$12,214	$38,575	$7,331
2017	October 2017 – December 2017	$35,115	$5,170	$20,820	$3,136
2017	September 2017 Bonus	$4,874	$0	$2,862	$0
2018	January 2018 – December 2018	$100,109	$22,249	$87,624	$19,474

(iii) For account 6112, we noted the following exceptions:

- The Beneficiary did not provide documentation to support for the following sampled expenses:

Data Period	Vendor	Amount
2012	Abney’s Inc	$847
2015	Sunflower County Tax Assessor	$1,208
2017	Abney’s Inc	$1,054
2017	Bachman Commercial	$1,003
2017	Sunflower County Tax Assessor	$2,223
	Total	**$6,335**

- For transactions from convenience stores such as Abney’s and QuickStop, we noted that an invoice for a subsample showed that the purchases included food/lunch and gas. The food/meal-related transactions for the employees are considered unallowable because the Beneficiary did not indicate that the work trips were overnight trips, as follows:

Data Period	Vendor	Amount
2012	Abney's Inc	$252
2013	QuickStop	$242
2013	Abney's Inc	$156
2013	Abney's Inc	$896
2014	Abney's Inc	$1,274
2014	Abney's Inc	$236
2014	Abney's Inc	$416
2015	Abney's Inc	$1,034
2015	Abney's Inc	$1,194
2016	Abney's Inc	$550
2017	Abney's Inc	$560
2017	Abney's Inc	$549
	Total	**$7,359**

(iv) For account 6116, we noted the following exception:

- The Beneficiary did not provide support for the following sampled expenses:

Data Period	Vendor	Amount
2012	Wade	$5,631
2013	Wade	$4,447
2014	Gresham Petroleum Company	$1,842
2014	Wade	$2,494
2015	Wade	$3,903
2015	Wade	$2,126
2017	Wade	$1,111
2017	Wade	$457
	Total	**$22,011**

Additionally, per review of CWF wideband allocation methodology, we identified differences in the Loop counts used in the calculation of the CWF categorization analysis. Originally, the Beneficiary reported 369 as their message loop count and a count of 4 as their wideband count. Per review of Part 64, the count for message loop reported was 368 and 2 for wideband count. As such, we recalculated the CWF categorization using the counts submitted for Part 64.

As a result of the exceptions we noted above related to accounts 6111, 6112, and 6116, which impact the valuation of account 2410 and differences in counts used for their CWF wideband allocation within the CWF categorization analysis, we concluded that the Beneficiary did not accurately report the balance of account 2410.

Below, we summarize the effect of the exceptions on the Part 64 and Part 36 balances resulting from the inaccurate reporting of CWF assets:

Recalculation of Part 64			
Account	As Reported Part 64 Balance (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
CWF Investment (Acct 2410)	$3,399,285	$3,361,953	$37,332
CWF Accumulated Depreciation (Acct 3100-2410)	$1,874,172	$1,853,589	$20,583
CWF Deferred Taxes (Acct 4340-2410)	$266,438	$263,512	$2,926
CWF Expense (Acct 6410)	$11,217	$11,094	$123
Depreciation Expense (Acct 6560-2410)	$203,825	$201,587	$2,238
CWF (DL700)	$3,399,285	$3,361,953	$37,332
Category 1 Investment for Cable and Wire (DL710)	$3,324,302	$3,305,665	$18,637

Impact to CWF Categorization[31]			
Category	As Reported Part 36 Cost Study (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Category 1 – 1.3 Jointly Used	$3,312,390	$3,293,753	$18,637
Category 2 – Ex Trk x/WB	$6,468	$4,422	$2,046
Category 2 – WB Trunk	$52,077	$35,606	$16,471
Category 3 – Joint MSG x/WB	$16,170	$15,992	$178
Total	**$3,387,105**	**$3,349,773**	**$37,332**

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data for HCP purposes for 10 years from the time of receipt of the funding for the filing in scope, as required by FCC rules.[32] Specifically, the Beneficiary did not (1) properly maintain support that would document the cost of expenses booked to accounts 6111, 6112 and 6116, (2) accurately reflect the employee hours per timesheets in the allocation of overhead accounts, (3) remove expenses deemed non-allowable in accordance with FCC18-29 or (4) properly update CWF categorization analysis to reflect the proper loops count.

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances—as stated in the "Recalculation of Part 64" and "Impact to CWF Categorization" tables above—for the period ending December

[32] *See* 47 C.F.R § 54.320(b) (2018).

31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$207
HCL	$719
CAF ICC	-
Total	**$926**

Recommendation

We recommend that USAC management seek recovery of the amounts identified in the Effect section above. Additionally, we recommend the Beneficiary develop and implement policies, procedures, and processes to ensure it (1) uses accurate, supported payroll data when allocating costs to capitalized CWF assets, (2) maintains documentation as required to support submitted CWF costs, (3) removes all non-allowable costs from study balances, and (4) updates its CWF categorization with accurate loop counts to ensure that it reports accurate balances for HCP purposes.

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

Beneficiary Response

The Beneficiary agrees with the portion of the finding related to not being able to provide detailed support for expenses and timesheets in question. However, the Beneficiary does not agree with the portion of the finding removing food and beverage costs found not incurred for the intended use of HCP support. Specifically, the Beneficiary noted that it disagrees with removing the food and beverage costs as it believes that allowing the purchase and reimbursement of food and beverage costs incurred by employees working out in the field is both a necessary expense and an economical use of funds. The Beneficiary further noted that it feels these costs are necessary as it is both efficient and economical to have employees purchase meals in the field versus having them come in from the field to the office for lunch and returning after.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response: As the Beneficiary did not provide documentation to support food and beverage costs that are allowable for HCP purposes, our position regarding this finding has not changed. Specifically, although the Beneficiary noted that it reimburses meals for any employees who work outside the office for a day, because FCC18-29A1 Paragraph 20 only allows ETC to cover the cost of food when employees are required to travel overnight, the cost of meals reimbursed to employees who returned home at the end of the day are not allowable.

Finding No. 7, 47 C.F.R. § 64.901(2018) and 47 C.F.R. § 32.6112(b)(2018) – Inaccurate Distribution of Labor Clearing and Overhead Expenses

Condition

We obtained and examined the Beneficiary's clearing process narrative, clearing report, and general ledger to determine whether the Beneficiary's distribution of overhead amounts was (1) cleared to construction and/or plant-specific operations expense accounts, and (2) allocated based on direct labor hours for the filing period as of December 31, 2018.

The Beneficiary performed its clearing process once during the filing period ended December 31, 2018, and it based its overhead clearing on direct labor hours performed by its outside plant installation and repair (I&R) employees. The Beneficiary's one-time clearing report showed that the overhead amounts (which included other miscellaneous costs) cleared from the following three accounts:

- Account 6111: Labor hours recorded by I&R employees on their timesheet for clearing.
- Account 6112: Vehicle expenses for items such as fuel and repairs.
- Account 6116: Other work expenses for items such as trenchers.[33]

We verified the direct labor hours that the Beneficiary based its overhead clearing spread on by reviewing timesheet records for the two I&R employees. We recalculated the hours and arrived at a total hour value of 3,036 direct labor hours for data period 2018. However, the Beneficiary utilized a total hour value of 3,119 hours for this period. We updated the distribution of labor and overhead clearing spread to use the direct labor hours that we were able to verify.[34]

Below, we summarize the effect of the exception to Part 64 and Part 36 balances resulting from the total number of direct labor hours used for the distribution of overhead amounts and the distribution of overhead amounts to a plant non specific operations expense account on the account balances reported for HCP purposes:

Recalculation of Part 64			
Account	As Reported Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Overstatement/ (Understatement) (A-B)
Central Office Transmission (Acct 2230)	$1,311,943	$1,311,124	$819
Accumulated Depreciation of Cable and Wire (Acct 3100_2410)	$1,874,172	$1,871,939	$2,233

[33] This account captures miscellaneous plant expenditures and supplies.

[34] Per the Beneficiary's process narrative, the labor hours that the Beneficiary uses to spread overhead costs ultimately determine the value of the Beneficiary's CWF assets, as indicated in Finding No. 6. The Beneficiary only uses the timesheets of the two I&R employees in allocating the overhead costs to CWF assets. We therefore adjusted for the difference in labor hours for data period 2018 as part of Finding No. 6.

Recalculation of Part 64			
Account	As Reported Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Overstatement/ (Understatement) (A-B)
General Support Expense (Acct 6120)	$69,437	$65,097	$4,340
Central Office Switching Expense (Acct 6210)	$33,240	$33,374	($134)
Central Office Transmission Expense (Acct 6230)	$107,808	$110,770	($2,962)
CWF Expense (Acct 6410)	$11,217	$8,474	$2,743
Network Operations Expense (Acct 6530)	$91,932	$87,969	$3,963

Impact on Central Office Transmission Categorization[35]			
Category	As Reported Part 36 Balance (A)	Sikich Audited Part 36 (B)	Variance Overstatement (A-B)
Category 4.11 Wideband-Line	$651,274	$650,862	$412
Category 4.12 Ex Trk x/WB	$42,174	$42,147	$27
Category 4.13 Joint MSG	$438,570	$438,292	$278
Category 4.22 PL	$42,174	$42,147	$27
Category 4.23 Joint MSG	$118,438	$118,363	$75
Total	**$1,292,630**	**$1,291,811**	**$819**

Cause

The Beneficiary did not have an adequate system in place for appropriately recording timesheet hours to ensure it accurately distributed and recorded the overhead clearing expenses to related accounts.

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated and add the understated account balances, noted in the "Recalculation of Part 64" and "Impact on Central Office Transmission Categorization" tables above, for the filing period of December 31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

[35] Reported balances for account 2230 Central Office Transmission Categorization for 2020 HCP disbursements are only reported as of December 31,2018. Additionally, the Beneficiary reported the average balance; the balances reported for Part 36 and Part 64 will therefore differ.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$2,757
HCL	$3,758
CAF ICC	-
Total	**$6,515**

Recommendations
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. Additionally, we recommend the Beneficiary develop policies and procedures and implement an adequate process to ensure it accurately calculates and distributes its overhead expenses to the related accounts using accurate direct labor hours.

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

Beneficiary Response
The Beneficiary disagreed with the finding, noting that it is not aware of any specific requirement that dictates monthly processing of financial statements, closing entries or allocations.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response
As the Beneficiary's response does not relate to the criteria on which we based our finding, nor does it address the accuracy of the reallocated overhead costs using the I&R employees verified direct labor hours, our position on this finding remains unchanged.

Finding No. 8, 47 C.F.R. § 36.121(b)(c)(d)(2018) – Inaccurate Reporting: COE Assets

Condition
We obtained and examined the Beneficiary's COE common distribution for the period ending December 31, 2018, to determine whether the Beneficiary properly separated the COE asset balances into categories, including equipment not assigned to a specific category (e.g., common power equipment), and accurately reported this data for HCP purposes.

Based on the documentation provided to support the common distribution of the Beneficiary's COE assets, we noted the following adjustments were required:

- **Switch Allocation:** The Beneficiary performed the switch allocation using a 3-year projection from 2015 that involved access line counts. We updated the allocation to use current year access line counts to reflect the 2018 environment.
- **4DSL Allocation:** In response to our initial request for documentation to support the 4DSL allocation, the Beneficiary provided documentation containing handwritten

numbers that could not be verified through source documentation. We followed up to request 4DSL and phone-only line counts; however, the Beneficiary did not respond to our follow-up request. Because we did not receive source documentation, as required to verify the accuracy of the 4DSL allocation, we adjusted the allocation to remove the line count from category 4.13 and move it to category 4.11, consistent with the intent of the original allocation.

According to 47 C.F.R. § 36.121(c), in the separation of the cost of COE assets among the operations, the first step is the assignment of the equipment to categories. In addition, per 47 C.F.R. § 36.121(c)(1), the cost of common equipment not assigned to a specific category shall be distributed among the categories in proportion to the cost of equipment and, where appropriate, a weighting factor shall be applied. Because source documentation to support the 4DSL allocation factor could not be verified, the adjustment done to the original categorization of COE resulted between category 4.11 and category 4.13 resulted in a variance between the recalculated category balance of $434,647 and the reported part 64 category balance of $445,120 that the Beneficiary reported as part of its cost study dated December 31, 2018. Additionally, these updates impacted plant adjustments 8 and 10 and expense adjustments 8 and 12 for the non-regulated removal of COE asset balances. This further impacted the Beneficiary's total COE balance.

Below, we summarize the effect of the exceptions to Part 64 and Part 36 balances resulting from the inaccurate reporting of COE assets:

Recalculation of Part 64			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance (Understatement) (A-B)**
Central Office Switching (Acct 2210)	$268,151	$280,656	($12,505)
Central Office Transmission (Acct 2230)	$1,311,943	$1,312,706	($763)
Accumulated Depreciation of Central Office Switching (Acct 3100-2210)	$227,187	$237,843	($10,656)
Accumulated Depreciation of Central Office Transmission (Acct 3100-2230)	$1,002,521	$1,003,101	($580)
Deferred Taxes Central Office Switching (Acct 4340-2210)	$21,018	$21,998	($980)
Deferred Taxes Central Office Transmission (Acct 4340-2230)	$102,831	$102,891	($60)
Central Office Switching Expense (Acct 6210)	$33,240	$34,565	($1,325)
Central Office Transmission Expense (Acct 6230)	$107,808	$107,868	($60)
Depreciation Expense Central Office Switching Expense (Acct 6560-2210)	$33,461	$35,024	($1,563)

Recalculation of Part 64			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance (Understatement) (A-B)
Depreciation Expense Central Office Transmission Expense (Acct 6560-2230)	$158,941	$159,001	($60)

Impact on Central Office Switching Categorization[36]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance (Understatement) (A-B)
Category 3-Local Switching	$264,386	$276,891	($12,505)
Total	**$264,386**	**$276,891**	**($12,505)**

Impact on Central Office Transmission Categorization[37]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance (Understatement) (A-B)
Category 4.11 Wideband-Line	$651,274	$651,658	($384)
Category 4.12 Ex Trk x/WB	$42,174	$42,199	($25)
Category 4.13 Joint MSG	$438,570	$438,829	($259)
Category 4.22 PL	$42,174	$42,199	($25)
Category 4.23 Joint MSG	$118,438	$118,508	($70)
Total	**$1,292,630**	**$1,293,393**	**($763)**

Cause

The Beneficiary did not have an adequate system in place for updating, collecting, reporting, and monitoring data to ensure that it accurately reported its COE common distribution for HCP purposes. Specifically, the Beneficiary did not (1) update access line counts for the current period or (2) maintain documentation to properly support the allocation factors within the COE categorization.

[36] Reported balances for account 2230 Central Office Switching Categorization for 2020 HCP disbursements are only reported as of December 31, 2018. Additionally, the Beneficiary reported the average balance; the balances reported for Part 36 and Part 64 will therefore differ.

[37] Reported balances for account 2230 Central Office Transmission Categorization for 2020 HCP disbursements are only reported as of December 31,2018. Additionally, the Beneficiary reported the average balance; the balances reported for Part 36 and Part 64 will therefore differ.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to add the understated account balances—as stated in the "Recalculation of Part 64," "Impact on Central Office Switching Categorization," and "Impact on Central Office Transmission Categorization" tables above—for the period ending December 31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$1,496
HCL	$2,241
CAF ICC	-
Total	**$3,737**

Recommendations
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. Additionally, we recommend the Beneficiary develop and implement policies, procedures, and processes that describe how the Beneficiary will update and maintain asset categorization schedules, including documenting assets by the proper category, submitted for HCP purposes to demonstrate compliance with the FCC Rule 47 C.F.R. § 36.121(b)(c)(d).

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

Beneficiary Response
The Beneficiary disagreed with finding, noting that because the switching allocation and support were frozen by an FCC order in 2011/2012 timeframe, the switching component of the finding is moot and that it does not believe its 4DSL allocations were unsupported. Specifically, the Beneficiary noted that because it is a very small company it has many manual processes supported "with handwritten numbers" and that it does not believe that the numbers being handwritten make the inputs based on those numbers unsupported.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response
As the Beneficiary did not provide documentation to support and prove cost causative the allocation factors it used in the cost study, which directly affected the calculation of non-regulated allocated costs and the remaining cost to be allocated among Part 36 categories, our position regarding this finding has not changed. With regard to the Beneficiary's comment that the switching component of the finding would not impact support due to it being frozen by an FCC order, the rule violation of not adequately documenting the allocation factors still exits; therefore Sikich maintains its position on the finding.

With regard to the unsupported allocation factor within the COE categorization, we could not verify the handwritten factors to be cost-causative as no underlying documentation could be provided to support them. Therefore, Sikich maintains its position on the finding

Finding No. 9, 47 C.F.R. § 54.320(b)(2018): Inadequate Supporting Documentation – Expenses

Condition
We obtained and examined the Beneficiary's general ledger for the year ended December 31, 2018, as well as supporting documentation, such as invoices and journal entries, to determine whether the Beneficiary properly recorded and categorized expenses for HCP purposes. Specifically, we selected and tested a non-statistical, judgmental sample as follows:

- 33 expense transactions[38] totaling $374,998 that we selected for testing in accordance with HCP rules.
- 10 expense transactions totaling $60,875 that we selected as a result of reviewing the general ledger for unallowable expenses.
- 15 expense transactions from the Beneficiary's parent company, SEI, totaling $126,641 that we selected because SEI allocated 51.5 percent of its $205,029 in general ledger expenses to the Beneficiary.

We tested the sampled transactions and noted the following exceptions related to inadequate documentation:

- The Beneficiary could not provide supporting documentation for 2 of the 33 expense samples selected for testing in accordance with HCP rules. Specifically, it did not provide documentation to support 1) management fees totaling $6,628, or 2) a write-off of $7,378 as a result of a reconciliation "due from customer account."
- The Beneficiary could not provide sufficient documentation for 1 of the 33 expense samples selected for testing in accordance with HCP rules or for 1 of the 10 expense samples selected as a result of reviewing the general ledger for unallowable expenses to enable us to verify whether 100 percent of the legal expenses recorded in the general ledger were related to regulated activities. Specifically, the Beneficiary provided monthly invoices that only stated "Advance Fee Billing" without any detail regarding the actual services provided. In response to our follow-up request, the Beneficiary provided the services agreement it entered into with 20 other Beneficiaries that described both the regulated and non-regulated services to be provided. We reviewed the services agreement but were unable to verify the percentage of regulated versus non-regulated services that

[38] We derived our sampling methodology from the U.S. Government Accountability Office's (GAO's) *Financial Audit Manual* (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 HCP support.

the Beneficiary was to provide. We therefore deemed the entire amount of the advanced billings for the data period, or $6,050, as inadequately supported.

- The Beneficiary could not provide receipts to support the costs identified on credit card statements for 5 of the 15 SEI samples. Because the Beneficiary was unable to provide receipts for any of the credit card transactions, identified as "Cardmember Services" in SEI's general ledger, we determined that none of the $22,825 in Cardmember Services expenses were adequately supported. We therefore deemed $11,755, or 51.5% of the $22,825, of the SEI expenses as unallowable.

Below, we summarize the effect of the exceptions to Part 64 balances resulting from inadequate documentation of expenses:

Recalculation of Part 64			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Executive Expense (Acct 6710)	$52,476	$34,093	$18,383
General Admin. Expense (Acct 6720)	$288,426	$274,998	$13,428

Cause
The Beneficiary did not have adequate controls in place to ensure that it maintained its supporting documentation for expense amounts submitted to the HCP for 10 years from the time of receipt of the funding for the filing in scope, as required by FCC rules.[39]

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by applying the following adjustments to the CAF BLS and HCL algorithms and by subtracting the overstated balances for the filing period as of December 31, 2018, as follows: $18,383 from account 6710 and $13,428 from account 6720. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$6,877
HCL	$11,243
CAF ICC	-
Total	**$18,120**

[39] *See* 47 C.F.R. § 54.320(b).

Recommendations
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend the Beneficiary develop and implement policies, procedures, and processes that ensure that the Beneficiary maintains adequate documentation to support all expenses and calculations used to arrive at amounts submitted for HCP purposes.

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

Beneficiary Response
The Beneficiary disagreed with this finding, noting that while it has limited resources dedicated to areas management considers less critical, its system has never failed or been found to be materially lacking in controls by any of the various government and regulatory agencies nor by its external auditors in their annual audit.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response
As Beneficiaries are required to retain all records needed to demonstrate support received was used consistent with program rules for at least 10 years regardless of the organization's size per FCC rules,[40] our position on this finding remains unchanged.

With regard to audits performed by other entities, our audit procedures and results are not reliant upon the results of previous financial and regulatory audits, as financial and other regulatory audits do not fully test compliance with FCC Rules and may have as wide a scope. We therefore independently performed our audit procedures and arrived at our conclusions based on the results of our review of supporting documentation to determine whether the Beneficiary properly stated its reported balances for HCP purposes, in accordance with FCC Rules.

Finding No. 10, 47 C.F.R. § 64.901(b)(3)(ii)(2018) and 47 C.F.R. § 54.320(b)(2018) – Inaccurate Expenses and Accrual Allocation

Condition
We obtained and examined the general ledger of the Beneficiary's parent company, SEI, and SEI's allocation of costs between STC and its affiliate, LTC, to verify that SEI accurately calculated the expenses shared between affiliates for HCP purposes for the filing period ending December 31, 2018. Additionally, we obtained and examined STC's general ledger for the filing period ending December 31, 2018, as well as supporting documentation such as invoices and journal entries, to determine whether STC properly recorded and categorized expenses for HCP

[40] *See* 47 C.F.R. § 54.320(b) (2018).

purposes. We also selected a non-statistical, judgmental sample of 33 expense transactions[41] totaling $374,998 for testing in accordance with the HCP rules. Per FCC Rules, all Beneficiaries are required to retain all records needed to support the balances submitted in their filings for 10 years from the time of receipt of funding for the filing in scope.[42] However, based on our review and testing, we noted the following exceptions with insufficient documentation being maintained:

SEI Allocation – Expenses
We reviewed the allocation of costs between STC and LTC and noted that SEI used an allocation factor of 51.50 percent; however, SEI was unable to provide documentation to support that it derived and formulated this percentage on a cost-causative basis. Because SEI's allocation percentage was unsupported, we used an allocation percentage of 58.81 percent that we derived based on STC and LTC's access line counts.

Below, we summarize the effect of the exception to Part 64 balances resulting from inaccuracies noted with the Beneficiary's SEI allocation:

Recalculation of Part 64			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance (Understatement) (A-B)**
General Support Expense (Account 6120)	$69,437	$70,113	($676)
Executive Expense (Account 6710)	$52,476	$52,551	($75)
General Admin. Expense (Account 6720)	$288,426	$305,382	($16,956)

SEP Allocation – Expenses
For 1 of the 33 expense samples tested, we found that the Beneficiary did not accurately calculate a portion of its Simplified Employee Pension (SEP) accrual, as the allocation was based on payroll expense allocation factors that we deemed either inadequate or inaccurate, as follows:

1. Because the Beneficiary was unable to provide documentation to support how SEI allocated costs between STC and LTC, we utilized the access line counts to allocate the SEP accrual between the two.

[41] We derived our sampling methodology from GAO's 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 HCP support.
[42] See 47 C.F.R. § 54.320(b) (2018).

2. The portion of the SEP accrual that we deemed inaccurate is based on the timesheets of the only two STC employees that maintain timesheet records. We reviewed the timesheets and found that the allocation percentages used were not in line with the submitted factors, thus we determined allocation factors using the verified hours per timesheets. We therefore recalculated the portion of the SEP accrual allocation that related to the two employees that maintained timesheets.

Below, we summarize the effect of the exception to Part 64 balances resulting from inaccuracies noted with the Beneficiary's SEP allocation:

Recalculation of Part 64			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
COE – Switching (Acct 2210)	$268,151	$268,218	($67)
Accumulated Depreciation – CWF (Acct 3100-2410)	$1,874,172	$1,873,647	$525
General Support Expense (Acct 6120)	$69,437	$67,799	$1,638
COE Switching Expense (Acct 6210)	$33,240	$32,892	$348
COE Transmission Expense (Acct 6230)	$107,808	$106,651	$1,157
CWF Expense (Acct 6410)	$11,217	$10,941	$276
Network Operating Expense (Acct 6530)	$91,932	$91,158	$774

Expense – Inaccurate Insurance Allocation
We reviewed the allocation of prepaid insurance expenses to verify that trued up costs were accurately reflected. We noted that the Beneficiary used an allocation factor of 51.50 percent for an allocated cost of $53,139; however, SEI was unable to provide documentation to support that it derived and formulated this percentage on a cost-causative basis. Because SEI's allocation percentage was unsupported, we used an allocation percentage of 58.81 percent that we derived based on STC and LTC's access line counts to verify cost of $58,355 and resulting in an under-allocated cost of $5,216 to General Admin. Expense account 6720.

Cause
The Beneficiary did not have adequate system and controls in place to ensure that it developed and maintained accurate and adequate documentation to support the allocation factors it used to calculate amounts in regard to the Beneficiary's portion of the SEI allocation to STC and the SEP and insurance expense allocations submitted to the HCP for 10 years from the time of receipt of the funding for the filing in scope, as required by FCC rules.[43]

[43] *See* 47 C.F.R. § 54.320(b) (2018).

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated and add the understated account balances, noted in the "Recalculation of Part 64" table above for the filing period as of December 31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($2,057)
HCL	($2,407)
CAF ICC	-
Total	**($4,464)**[44]

Recommendations
We recommend the Beneficiary develop and implement policies, procedures, and processes that ensure the Beneficiary maintains adequate documentation of allocation percentage development to support all expenses and assets balances submitted for HCP purposes.

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

Beneficiary Response
The Beneficiary disagreed with this finding, noting that both it and its affiliates have followed the same basic process/concept for many years while undergoing multiple BCAP audits, PQAs, NECA reviews, etc. and until this most recent audit these same processes have never been a material issue.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response
As Beneficiaries are required to retain all records needed to demonstrate support received was used consistent with program rules for at least 10 years per FCC rules,[45] our position on this finding remains unchanged.

With respect to audits performed by other entities, our audit procedures and results are not reliant upon the results of previous financial and regulatory audits, as financial and other regulatory audits do not fully test compliance with FCC Rules and may not have as wide a scope. We therefore independently performed our audit procedures and arrived at our conclusions based on

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[44] The High Cost Program does not pay additional support in the event of a finding resulting in an underpayment.
[45] *See* 47 C.F.R. § 54.320(b) (2018).

the results of our evaluation of supporting documentation to determine whether the Beneficiary properly stated its reported balances for HCP purposes, in accordance with FCC Rules.

Finding No. 11, 47 C.F.R. § 54.7(a)(2018), FCC 15-133(2015), and FCC 18-29(2018) – Support Not Used for Intended Purpose of Federal Universal Service Support

Condition

We obtained and examined the Beneficiary's general ledger for the year ended December 31, 2018, as well as supporting documentation such as invoices and journal entries, to determine whether the Beneficiary properly recorded and categorized expenses for HCP purposes. We also selected non-statistical, judgmental samples, as follows:

- 33 expense transactions[46] totaling $374,998 that we selected for testing in accordance with HCP rules.
- 10 additional expense samples totaling $60,875 that we selected as a result of reviewing the general ledger for unallowable expenses.
- 15 additional expense samples from the Beneficiary's parent company, SEI, totaling $126,641 that we selected because SEI allocated 51.5 percent of its $205,029 in general ledger expenses to the Beneficiary.

In addition to the above samples, we performed a review of 550 transactions from material expanse accounts to determine whether transactions were incurred for the intended purpose for Federal Universal Service support.

We identified 18 transactions that the Beneficiary did not appear to have incurred for the provision, maintenance, and upgrade of facilities and services, for which HCP support is intended:

- 1 of the 33 expense transactions selected for testing in accordance with HCP rules related to Caller Name Delivery (CNAM) Queries, which is the equivalent of Caller ID services, in the amount of $1,078 submitted to General Admin Expense account 6720.
- 2 of the 15 SEI samples related to costs that the Beneficiary incurred for food and drinks at a country club. We further reviewed SEI's general ledger and identified all food and drink costs related to the country club, for a total of 11 transactions (including the 2 sampled amounts) in the amount of $3,494. We calculated the amount of these exceptions as $1,799, (calculated as $3,494 *51.5%) SEI allocation, submitted to Executive Expense account 6710.
- 15 of the 33 expense transactions related to unallowable bottled water and business journal subscriptions in the amount of $2,256 submitted to General Admin Expense account 6720.

[46] We derived our sampling methodology from GAO's 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 HCP support.

Below, we summarize the effect of these exceptions to Part 64 and Part 36 balances resulting from the inclusion of non-regulated costs in the costs the Beneficiary reported for HCP filings:

Recalculation of Part 64			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Executive Expense (Acct 6710)	$52,476	$50,677	$1,799
General Admin. Expense (Acct 6720)	$288,426	$285,092	$3,334

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that it identified and excluded unallowable expenses from the amounts it reported for HCP purposes.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by applying the following adjustments to the CAF BLS and HCL algorithms and by subtracting the overstated balances for the filing period as of December 31, 2018, as follows: $1,799 from account 6710 and $3,334 from account 6720. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$1,180
HCL	$1,814
CAF ICC	-
Total	**$2,994**

Recommendations
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. Additionally, we recommend the Beneficiary develop and implement policies, procedures, and processes to ensure it (1) excludes costs that are not necessary for the provision, maintenance, and upgrade of facilities and (2) maintains supporting documentation as required for amounts submitted for HCP purposes to demonstrate compliance with the FCC Rule 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29.

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

Beneficiary Response
The Beneficiary disagreed with this finding, noting that it believes CNAM and food and beverages cost as are used for the intended purposes of Federal Universal Service Support.

Specifically, the Beneficiary believes it is required to provide the CNAM/Caller Line Identification (CLID) services and that it should pay for employee meals when the employees are out in the service area performing HCP related duties.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response

As the Beneficiary included CNAM and food and beverage costs that were not used for the intended purpose of Federal Universal Service Support, our position on the finding remains unchanged. Specifically:

- With regard to CNAM expenses, the Beneficiary appears to be conflating CNAM and CLID. These are two separate services. Per DA 11-1089 and 47 C.F.R. § 64.1601, carriers that use SS7 must carry CLID. However, they are silent on CNAM. The definitions in 64.1600 indicate that a caller identification service could include the calling party number; however, the requirement to transmit the calling party number (CPN) does not mean that a caller identification service (which could also include other information, such as caller name) is also required. Therefore, although CLID is required, CNAM services are not, and the CNAM services are not allowable.

- With regard to the employee food and beverage costs, because FCC18-29A1 Paragraph 20 only allows ETC to cover the cost of food, along with other costs incurred as a result of overnight travel, such as mileage, lodging, or airfare when employees are required to travel overnight, it was not reasonable for ETC to include the cost of meals reimbursed to employees who returned home at the end of the day.

<u>Finding No. 12, 47 C.F.R. § 32.12(a)(2018) – Inaccurate Reporting of Expense – Outside of data period</u>

Condition

We obtained and examined the Beneficiary's general ledger for the year ended December 31, 2018, as well as supporting documentation such as invoices and journal entries, to determine whether the Beneficiary properly recorded and categorized expenses for HCP purposes. We also selected non-statistical, judgmental samples, as follows:

- 33 expense transactions[47] totaling $374,998 that we selected for testing in accordance with HCP rules.
- 10 additional expense samples totaling $60,875 that we selected as a result of reviewing the general ledger for unallowable expenses.

[47] We derived our sampling methodology from GAO's 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 HCP support.

- 15 additional expense samples from the Beneficiary's parent company, SEI, totaling $126,641 that we selected because SEI allocated 51.5 percent of its $205,029 in general ledger expenses to the Beneficiary.

We noted three instances in which the Beneficiary included expenses in its filing as of December 31, 2018 that were incurred outside of filing period to be reported for HCP purposes. The expenses identified outside of the filing period of 2018, were as follows:

- One $5,100 expense recorded to general purpose computer expense account 6124 was supported by an invoice for network monitoring services in the amount of $5,100 showed a contract effective date of August 1, 2017, through July 31, 2019. As 7 months of this expense related to a future data period, we noted an exception for $2,975 (calculated as $5,100 * 7/12 months) of the total expense recorded.
- One $1,557 expense recorded to general and administrative expense account 6720 was supported by an invoice for which the date of service was December 2017, which was before the 2018 data period. We therefore noted an exception for the full invoice amount of $1,557.
- One $22,094 expense recorded to access expense account 6540 was supported by an invoice that included expenses for the 27 months period of May 2016 to July 2018. As 19 monthly invoices of this expense related to data for a previous period, we noted an exception for $16,406 of the total expense recorded.

Below, we summarize the effect of the exceptions to Part 64 balances resulting from the inclusion of costs outside the 2018 data period in the amounts the Beneficiary reported for its HCP filings:

Recalculation of Part 64			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
General Support Expense (Acct 6120)	$69,437	$66,462	$2,975
General Admin. Expense (Acct 6720)	$288,426	$286,859	$1,567
Access Expense (Acct 6540)	$18,401	$1,995	$16,406

Cause
The Beneficiary did not have an adequate system in place to ensure that it reviewed and verified that it only reported costs for the applicable 2018 data period for HCP purposes. As a result, we determined that the Beneficiary did not record 2018 expense transactions in the proper amount.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by applying the following adjustments to the CAF BLS and HCL algorithms and by subtracting the overstated balances for the filing period as of December 31, 2018, as follows: $2,975 from account 6120, $1,567 from

account 6720, and $16,406 from account 6540. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$11,332
HCL	$1,605
CAF ICC	-
Total	**$12,937**

Recommendations
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. Per FCC Rules, Beneficiaries are required to keep financial records in accordance with generally accepted accounting principles.[48] Additionally, we recommend the Beneficiary develop and implement policies, procedures, and processes that ensure that it only includes costs related to the applicable data period in amounts submitted for HCP purposes.

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

Beneficiary Response
The Beneficiary agreed with this finding, noting that it was caused by human error in the process of receiving and recording invoices. The Beneficiary agreed to Review its internal processes and make every effort to avoid these type errors in future.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response
Our position on this finding remains unchanged.

Finding No. 13, 47 C.F.R. § 54.320(b)(2018) and 47 C.F.R. § 64.901(2018) – Inadequate Supporting Documentation – Expense and Inaccurate Reporting: Cost Study Adjustments – Assets and Expenses

Condition
We obtained and examined the Beneficiary's general ledger for the filing period of December 31, 2018, as well as supporting documentation such as invoices and journal entries, to determine whether the Beneficiary properly recorded and categorized its expenses for HCP purposes. We

[48] *See* 47 CFR 32.12 (2018).

selected a non-statistical, judgmental sample of 33 expense transactions[49] totaling $374,998 for testing in accordance with HCP rules. Additionally, we obtained and examined the Beneficiary's supporting documentation for 11 cost study adjustments for the December 31, 2018, filing period to determine whether the Beneficiary accurately reported the amounts for HCP purposes. We examined the documentation provided and noted the following exceptions:

Inadequate Support – Expenses
For 1 of the 33 expense samples tested, we found that the Beneficiary did not accurately calculate a portion of its SEP accrual, as the allocation was based on an unsupported payroll expense allocation percentage. Specifically, the Beneficiary did not maintain documentation such as timesheets or employee time studies to support the basis for its allocation.

Because of the small size of the Beneficiary's workforce, the Beneficiary's accounting staff derived the allocation percentages by conducting one-on-one interviews with the workforce and management to develop an estimated allocation. The accounting staff held these interviews in lieu of any formal time study or other process, as Beneficiary management felt that the results of these interviews were representative of the actual work performed.

Based on this understanding, we identified the following exceptions with the Beneficiary's payroll process:

- The Beneficiary did not maintain supporting documentation for its one-on-one interviews to develop its estimated allocation for employees who do not spend 100 percent of their time supporting a single affiliate.
- One-on-one interviews are not considered to be a cost causative method utilized for the development of the estimated allocation.
- The Beneficiary only required two STC employees to maintain timesheet records.

Below, we summarize the effect of these exceptions to Part 64 and Part 36 balances resulting from the lack of employee timesheets or other documented, cost-causative allocation basis for preparing the SEP accrual:

[49] We derived our sampling methodology from GAO's 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 HCP support.

Recalculation of Part 64			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Central Office Equipment – Transmission (Acct 2230)	$1,311,943	$1,311,687	$256
Network Operating Expense (Acct 6530)	$91,932	$89,932	$2,000
Customer Operation Services Expense (Acct 6620)	$100,535	$96,431	4,104
Executive Expense (Acct 6710)	$52,476	$51,836	$640
General Admin. Expense (Acct 6720)	$288,426	$284,293	$4,133

Impact on Central Office Transmission Categorization[50]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Category 4.11 Wideband-Line	$651,274	$651,144	$130
Category 4.12 Ex Trk x/WB	$42,174	$42,166	$8
Category 4.13 Joint MSG	$438,570	$438,483	$87
Category 4.22 PL	$42,174	$42,166	$8
Category 4.23 Joint MSG	$118,438	$118,415	$23
Total	**$1,292,630**	**$1,292,374**	**$256**

Inaccurate Reporting – Cost Study Adjustments
The Beneficiary's supporting documentation indicated that it used payroll dollars to develop the 2.31 percent allocation factor it used to calculate the non-regulated portion of costs for its general support assets and related expenses. However, the Beneficiary could not provide documentation to support how it derived the 2.31 percent.

Specifically, because the Beneficiary could not provide sufficient documentation of payroll distribution, as only two employees maintained timekeeping records; it was unable to support this factor. As such, we calculated the ratio of non-regulated expenses to total operating expenses to develop a new factor of 13.38 using the audited financial statements.

Below, we summarize the effect of the exception to Part 64 balances resulting from the revision to the allocation factor:

[50] Reported balances for account 2230 Central Office Transmission Categorization for 2020 HCP disbursements are only reported as of December 31,2018. Additionally, the Beneficiary reported the average balance; the balances reported for Part 36 and Part 64 will therefore differ.

Recalculation of Part 64			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Land & Support Assets (Acct 2110)	$832,679	$738,349	$94,329
Accumulated Depreciation -Land and Support (Acct 3100_2100)	$592,436	$525,322	$67,114
Deferred Taxes (Acct 4340_2100)	$62,889	$55,765	$7,124
Network Support Expense (Acct 6110)	$22,725	$20,151	$2,574
General Support Expense (Acct 6120)	$69,437	$61,571	$7,866
Depreciation Expense – Land and Support (Acct 6560_2110)	$13,439	$11,916	$1,523

Because the Beneficiary did not maintain documentation to support how it derived its non-regulated general support allocation factor, we were unable to verify whether the submitted factor was cost-causative or whether the Beneficiary calculated and removed the proper amount of non- regulated costs from the balances it submitted for HCP purposes. As such, instead of applying a 100% non-regulated allocator, we derived an allocator to apply utilizing operating and non-operating expense per the financial statements as noted above.

Cause

The Beneficiary did not have adequate systems and controls in place to ensure that it maintained supporting documentation for the allocation factors it used to calculate amounts relating to the SEP accrual and did not have an adequate system or controls in place to ensure it accurately reported cost study adjustments submitted for HCP purposes for 10 years from the time of receipt of the funding for the filing in scope, as required by FCC rules. [51]

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances—as stated in the "Recalculation of Part 64" and "Impact on Central Office Transmission Categorization" tables above—for the period ending December 31, 2018. Below, we summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$3,617
HCL	$2,708
CAF ICC	-
Total	**$6,325**

[51] *See* 47 C.F.R. § 54.320(b) (2018).

Recommendations
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend the Beneficiary develop and implement policies, procedures, and processes that ensure it maintains adequate documentation to support all expenses, assets, and calculations used to arrive at amounts submitted for HCP purposes.

Further, because the issue with the Beneficiary not maintaining timekeeping records to support its allocation basis likely existed prior to and after the current audit period, we recommend that USAC management collect and review documentation for the Beneficiary's prior and subsequent HCP submissions to recalculate support.

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

Beneficiary Response
The Beneficiary disagreed with finding, noting that it has developed processes that have been acceptable in the past that are now being noted as exceptions. Specifically, the Beneficiary noted that because its current practices were allowed previously, it assumed those practices were still acceptable.

The Beneficiary's full response to this finding is available in **Appendix A**.

Sikich Response
As the Beneficiary did not maintain adequate documentation in accordance with the rules to support payroll related allocation factors, our position on the finding remains unchanged.

With regard to audits performed by other entities, our audit procedures and results are not reliant upon the results of previous financial and regulatory audits, as financial and other regulatory audits do not fully test compliance with FCC Rules and may not have as wide a scope. We therefore independently performed our audit procedures and arrived at our conclusions based on the results of our evaluation of supporting documentation to determine whether the Beneficiary properly stated its reported balances for HCP purposes, in accordance with FCC Rules.

Criteria

Finding	Criteria	Description
1, 2, 6, 9, 10, 13	47 C.F.R. § 54.320(b) (2018)	*(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	47 C.F.R. § 54.320(a) (2018)	*(a) Eligible telecommunications carriers authorized to receive universal service high-cost support are subject to random compliance audits and other investigations to ensure compliance with program rules and orders.*
2, 6, 7, 10, 13	47 C.F.R. § 64.901 (2018)	*§ 64.901 Allocation of costs.* *(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.* *(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.* *(1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. 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*

Finding	Criteria	Description
		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.* *(c) A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.*
3	47 C.F.R. § 32.2000(e)(6) (2018)	*(6) The company shall prepare and maintain the basic property record as follows:* *(i) Not later than June 30 of the year following that in which the company becomes subject to this system of accounts, begin the preparation of a basic property record.* *(ii) Complete within two years of the prescribed beginning date, basic property records for all property as of the end of the preceding calendar year.*

Finding	Criteria	Description
		(iii) Promptly process in the basic property records all property changes affecting periods subsequent to initial establishment of the basic property record.
4	47 C.F.R. § 32.2000(g)(2) (2018)	*(2) 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.*
5, 12	47 C.F.R. §32.12(a) (2018)	*(a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.*

Finding	Criteria	Description
7	47 C.F.R. §32.6112(b) (2018)	*(b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.*
8	47 C.F.R. § 36.121(b)(c)(d) (2018)	*(b) Records of the cost of central office equipment are usually maintained for each study area separately by accounts. However, each account frequently includes equipment having more than one use. Also, equipment in one account frequently is associated closely with equipment in the same building in another account. Therefore, the separations procedures for central office equipment have been designed to deal with categories of plant rather than with equipment in an account.* *(c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering, and other records.* *(1) The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the categories in proportion to the cost of equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories.* *(i) The cost of power equipment used by one category is assigned directly to that category, e.g., 130-volt power supply provided for circuit equipment. The cost of emergency power equipment protecting only power equipment used by one category is also assigned directly to that category.* *(ii) Where appropriate, a weighting factor is applied to the cost of circuit equipment in distributing the power plant costs not directly assigned, in order to reflect the generally greater power use per dollar of cost of this equipment.* *(d) The second step is the apportionment of the cost of the equipment in each category among the operations through the application of appropriate use factors or by direct assignment.*

Finding	Criteria	Description
11	47 C.F.R. §54.7(a) (2018)	(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.*
11	FCC 15-133 – *FCC Reminds ETCs of High-Cost Support Requirements*, WC Docket No. 10-90, Public Notice, 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.*
11	FCC 18-29 – *FCC Provides Additional $500 Million in Funding for Rural Broadband*, WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC	*I 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*

Finding	Criteria	Description
	Rcd 2990, 2994, paras. 17-41 (2018)	*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.*

Sikich CPA LLC

APPENDIX A: SLEDGE TELEPHONE COMPANY'S RESPONSES

Finding 1: *Beneficiary disagrees. The beneficiary notes that FCC guidance requires companies to retain all records for at least 10 years. Sikich recognizes, and indeed refers to, this requirement in its recommendation; however, then proposes to penalize the beneficiary for not having documentation older than 10 years. Due to assets under review being from 2008 and 2012, the support for the invoices of these assets/expenses was not able to be found. These invoices are well beyond the 10 years recommended. The COE and GSA samples and invoices under review are over 15 years old and the company was unable to locate all requested records. The company will review internal record retention process and modify to ensure that older records are maintained going forward in compliance with FCC rules.*

Finding 2:
Beneficiary Response No. 1[52]

> *Sikich alleges that the Beneficiary incorrectly used a direct allocation for its payroll process and then proposes to remove payroll balances from the Labor Distribution with no timesheet records. The removal of payroll balances is an error that does not comply with the established hierarchy of cost assignment in 47 C.F.R. § 64.901. Sikich should have followed Section 64.901(b)(2)-(3) which requires the following when assigning costs to regulated and nonregulated activities:*
>
> 2. *Directly assigned costs whenever possible.*
> 3. *Residual costs not directly assigned are classified as common costs and are grouped into homogenous cost categories and cost assignment is based on:*
>   a. *Allocation based on direct analysis of the origin of the costs;*
>   b. *When direct analysis is not possible, allocated based on an indirect, cost-causative linkage to another cost category that has a direct analysis available;*
>   c. *When direct or indirect measures are not available, costs shall be allocated based on a general allocator computed by using the ratio of all expenses directly or attributed to regulated and non-regulated activities.*
>
> *The Beneficiary contends that annual employee interviews constitute a direct analysis. It conducts these interviews to assess the allocation between regulated and non-regulated activities. This information is received and used to determine the amounts assigned to regulated and non-regulated activities. As the Beneficiary is a small rural operation, this information is retained in the memory of the long-term employees and formalized in writing in the developed allocation using this direct assignment process. Sikich finds that there was no supporting <u>written</u> documentation, other than the actual allocation, for these interviews and did not accept as sufficient the Beneficiary's verbal description of its*

[52] Per the Beneficiary response received on February 19, 2024.

process. The Beneficiary admits it does not have a full set of written records to demonstrate to auditors its direct linkage process.

Notwithstanding the record retention process, Sikich found the Beneficiary's direct analysis unsupported and incorrectly removed all payroll balances for which there are no timesheet records. This removal is incorrect because Sikich should have followed the cost-allocation hierarchy whose inputs are easily derived. The Beneficiary claims that if direct analysis is not possible or deemed insufficient by the auditor, and an indirect cost-causative linkage to another direct analysis is not possible, Sikich should have used the general allocator approach described in 47 C.F.R. § 64.901(b)(3)(c).

All expenses directly or attributed to regulated and non-regulated activities are found in Company Response to PBC #60_1PtA of the workpapers provided to Sikich. Using these data, we compute the general allocator shown in Attachment 1 of this response. Applying this general allocator, Attachment 1 shows that of the entire payroll Labor distribution of $295,177.93, $252,130.50 should be allocated to regulated activity. (The Beneficiary notes that if it were to "reallocate" parent company payroll using the accepted General allocator method described in 64.901(b)(3)(c), the gross payroll allocated to Sledge Telephone would be $331,148.30 not the $295,177.93 resulting in $282,855.11 being allocated to regulated expenses.)

The (3)€ allocation of $252,130.50 compares to the Beneficiaries original proposed $294,907. (These numbers account for the finding in #6 that Sikich reported in footnote 12 of its report.) This difference should be used instead of removing all payroll where a direct allocator method was insufficient. The finding therefore should reflect a $________ ($______ CAF/BLS & $______ HCL) change replacing the $154,744 recommended recovery in Sikich's Finding #2.

In discussions with Sikich team on 2/16/2024 company explained that the lack of time sheets was due to fact that all but the 2 employees with timesheets were paid on salary basis and as such were not required to produce timesheets. It is evident that Sikich is considering lack of timesheets as lack of support for payroll when in fact the payroll itself is supported and the issue is really an issue of allocation. Based on our conversations and reading of the 47 C.F.R. § 64.901(b)(3)(c) the finding should not have removed the payroll but rather recalculated the allocation. The company provided Sikich its recalculation of the allocation based on 64.901(b)(3)(c).

Beneficiary Response No.2[53]

The Beneficiary disagrees with the finding and hereby replies to Sikich's discussion on the allocation of payroll expenses for salaried employees between Sledge and Lakeside regulated operations under 47 CFR § 32.2. The Beneficiary's Initial Response referenced

[53] Per the Beneficiary response received on February 29, 2024.

47 CFR §64.901 largely because Sikich's Finding #2 cites this regulation and uses the term "cost-causative" in explaining the alleged deficiency—a term used Part 64.901. Sikich now references 47 CFR § 32.2 in its Response. After providing some initial observations, the Beneficiary will address the matter in Finding #2 in two steps: first, the allocation of salaried employees between the Beneficiary and Lakeside and second, the allocation of Beneficiary expenses between regulated and non-regulated activity.

Initial Observations on the Finding and Proposed Response

The Beneficiary reaffirms that the proposed action of removing all salaried employee payroll assigned to Beneficiary operations is inappropriate. The salaried employees reported that they perform regulated functions for both Beneficiary and Lakeside. There are records showing that payroll was paid to salaried employees in the performance of their stated duties in their job descriptions for both Beneficiary and Lakeside. Moreover, the Beneficiary conducted annual verbal reviews of work performed and this review led to the documented allocation percentage used for each employee's payroll assignment to the Beneficiary and Lakeside. The issue in Finding #2 is not that payroll for salaried employees exist. The central issue described in Finding #2 is that the verbal interviews with the subsequent percentage allocation for each salaried employee was not sufficiently documented, and "not considered to be cost causative."[54]

The Beneficiary respectfully responds that the standard of "cost-causation", while used in 47 CFR §64.901, is not referenced in 47 CFR §32.2. Instead, 47 CFR §32.2 intends carriers to identify certain recurring functions in natural groupings. In this instance, the matter of Finding #2 involves recurring functions performed by salaried individuals. The CFR guides the grouping of functions performed by individuals into the primary bases of plant specific and non-specific operations, customer operations, and corporate operations expense.

When Sikich found that verbal discussions were not documented to its satisfaction, the result should be for Sikich to direct the Beneficiary to remedy the allocation of established recurring payroll expenses with an approach consistent with the principles found in 47 CFR §32.2. The Beneficiary agrees that 47 CFR §32.2 guides the general approach to use natural groupings intended to allocate based on functions performed by individuals for the Beneficiary. This guidance was employed by the Beneficiary. Notwithstanding, the Beneficiary now proposes to remedy the initial labor distribution addressed in Sikich's Finding #2 using a two-step approach.

Step 1: 47 CFR §32.2 – Allocation of Salaried Payroll Expenses Between Beneficiary and Lakeside

1. *The Beneficiary proposes Sikich to set aside the initial labor distribution and instead allocate salaried payroll expenses between Beneficiary and Lakeside using specific*

[54] Audit, p. 15.

allocators for plant operations, customer operations, and corporate operations based on the provided job descriptions. All calculations are based on data supplied by the Beneficiary to Sikich and used audited and verified data. The allocators are specific since the functions of plant operations, customer operations, and corporate operations are generally considered to have different characteristics that can be captured using different allocation methods.

a. *Plant Operations: Plant Operations performed by salaried employees is captured using a plant allocator based on the established relationship that plant expenses follow plant investment, i.e., total plant in service. Using audit-year balances, this allocator results in 57.96 percent of Sunflower total plant activity allocated to the Beneficiary.*

b. *Customer Operations: Customer Services operations is captured using total Category 1.3 loops in service. The relationship of customer service and loops is often used to reflect the natural grouping of customer service activity with total loops in service. Using audit-year balances, this allocator results in 60.44 percent of Sunflower total customer operations activity allocated to the Beneficiary.*

c. *Corporate Operations: Corporate Operations is captured using an average of the Plant Operations percentage and the Customer Operations percentage. Corporate Operations supports all operational activity and an average of the two percentages intends to capture this natural grouping of costs. Using the two calculated percentages, this allocator results in 59.20 percent of Sunflower total customer operations activity allocated to the Beneficiary.*

d. *Supporting details are provided in Worksheet entitled "Dev of Pt 32.2 Alloc Factors" in the excel file "Sledge Finding #2 Gen Alloc Calc" (provided separately).*

2. *Each salaried full-time employee has different documented functions identified by job title and job description. (Note: Temporary Office Help is split between Customer Operations and Corporate Operations, and dedicated employees for the Beneficiary and Lakeside are not included in this Part 32 allocation since they are directly assigned.) These functions are assigned percentages using the following Table 1:*

Table 1
Natural Grouping of Salaried Payroll Function

Salaried Employee Title	***Plant Operation***	***Customer Operation***	***Corporate Operation***
Outside Plant	*X*		
President CEO			*X*
Temp Office Help			*X*
CFO			*X*

Office Manager		*X*	
Outside Plant Asst.	*X*		
Outside Plant	*X*		

This leads to the following payroll allocations between the Beneficiary and Lakeside. These calculations are based on the functional allocators and the natural grouping for each employee. Supporting details are provided in Worksheet entitled "Pt 32.2 Alloc".

Table 2
Part 32 Allocation of Salaried Employee Payroll to Beneficiary

Total Salaried Employees	***Plant Operation***	***Customer Operation***	***Corporate Operation***	***Total Allocated to Beneficiary***
Allocated Salaried Employees	*$74,219.49*	*$33,359.20*	*$172,097.08*	*$279,625.77*
Directly Assigned				*$22,645.56*
TOTAL				*$302,321.33*

The total Salaried Payroll assigned to Beneficiary is $302,321.33. This amount is $7,143.40 greater than the initial distribution using the Beneficiary's verbal interviews and subsequent allocation.

Step 2: 47 CFR §64.901 – Allocation of Beneficiary Salaried Payroll Expenses Between Regulated and Non-Regulated Activity

1. *The Beneficiary proposes to use 47 CFR §64.901 general allocator to address the concerns raised by Sikich. We will use only Beneficiary's allocated Salaried Payroll coming from Step 1; and we will allocate non-regulated payroll expenses using only the expense accounts. This allocator is a general allocator that is "computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities."[55] The computation of the allocator for all expenses except for payroll yields 58.95 percent assigned to the Beneficiary. Supporting details are provided in Worksheet entitled "Dev of Pt 64.901 Alloc" in the excel file "Sledge Finding #2 Gen Alloc Calc" (provided separately).*

2. *This allocator is then used to distribute the Beneficiary Salaried Payroll to the regulated and non-regulated accounts. The result is for $40,676.40 of Beneficiary payroll salary to be assigned to non-regulated activity. This amount is a net removal from the initial labor allocation. Supporting details are provided in Worksheet entitled "Dev of Pt 64.901 Alloc".*

[55] 47 C.F.R. §64.901(b)(3)(iii) (2018).

The Beneficiary submits this two-step process employs the guidance of Part 32 and the detailed requirements of Part 64 and satisfies all the concerns expressed by Sikich. The result of this two-step approach is that the Sikich recommendation of removing $157,744 of federal high-cost support is replaced by a removal of an approximate $20,000 from the support mechanisms. Due to time constraints in providing response beneficiary was unable to develop actual amount to be removed but used an approximate 50% of total payroll removed as interim placeholder.

Please note the supporting calculations for above amounts are included in separate excel file "Sledge Finding #2 Gen Alloc Calc" uploaded with this response.

Finding 3: *Beneficiary disagrees with finding. In the period between 2008-2011 the company upgraded a significant portion of their copper network with fiber. The consultant at the time removed the copper facilities that were replaced with fiber but failed to maintain the copper CPR for the remaining investment that was initially installed in the 70's and 80's. It should be noted that the company has recently received a RUS grant to complete the fiber buildout and will be 100% FTTH by late 2024 at which time the remaining copper investment will be retired. The company does not agree with the exclusion of this asset as based on HUBB and BDC filings this copper investment is providing service to existing subscribers as it was during time under review. For any future buildouts the company will keep detailed CPR records at the time of the buildout.*

Finding 4: *Beneficiary agrees with finding. Due to the very small staff utilized in the accounting function and small size of the company in general the company management has determined the cost and time required to produce a monthly financial statement far outweighs any benefit they might receive. As a result of this efficient and cost-saving process the company is in technical non-compliance with this specific requirement. The Company accepts the finding however due to fact it is favorable to company, but the impacts are not enough to offset cost of hiring needed staff to produce monthly financials management will have to review this with the other findings to determine next steps. It does seem counter-intuitive for a company of Sledge's size and resources to be required to incur additional costs that would be reimbursable from the funds when this historical operational system has been acceptable in past USAC audits and reviews.*

Finding 5: *The Beneficiary agrees with finding. Due to oversight by accounting staff the company booked retirements in the CPR but inadvertently did not book the retirement on the GL. Beneficiary has implemented processes to minimize future risk of this happening. Future retirements will be booked on both the CPR and the GL.*

Finding 6: *Beneficiary agrees with finding. Due to the time elapsed between 2012-2018 and the current year 2023, the client was not able to provide detailed support for the expenses or timesheets in question. We acknowledge the results of the findings and we have implemented appropriate procedures to correct this going forward.*

The company would first like to point out that with the exception of the last item on this list all differences are less than 1% of the total and would, under normal audit procedures, fall in the category of immaterial. Several of the "differences" are no greater than 2, which equates to less than 7 one hundredths of one percent variance. As such it is the company's position that these differences are more than likely the result of simple human error. As stated previously management will take this along with other findings issued in the final report and review to determine what steps can reasonably be implemented with the limited resources of company to satisfy this and the other audit findings/recommendations. At the same time the company will continue to operate in the manner deemed most efficient as determined by management.

The beneficiary strongly disagrees with this component of finding. In regard to the food and beverage issue the company takes the position that this is both a necessary and economical use of funds. In those instances where a company employee is more than 1 hour away for their reporting location it only makes economic sense to allow said employee the option of purchasing a meal on site versus that same employee commuting back to office for an hour, eating lunch then commuting back to worksite for an hour. In a typical 8 hour day if we did not allow employees to purchase lunch when away from their primary reporting location the company would lose 4 out of 8 hours simply commuting (1 hour to get to work site at beginning of day, 1 hour to return to primary reporting location for lunch, 1 hour to return to work site after lunch and 1 hour to return to primary location versus the 6 hours of productive time by offering this option. It is management understanding that they are obligated to do everything in their power to minimize waste, but this finding would seem to contradict that very concept. As stated previously management will take this along with other findings issued in the final report and review to determine what steps can reasonably be implemented with the limited resources of company to satisfy this and the other audit findings/recommendations. At the same time the company will continue to operate in the manner deemed most efficient as determined by management.

For Account 6116, due to the time elapsed between the 2018 study and the current year 2023, the client was not able to provide detailed support for the expenses in question. As stated previously management will take this along with other findings issued in the final report and review to determine what steps can reasonably be implemented with the limited resources of company to satisfy this and the other audit findings/recommendations. At the same time the company will continue to operate in the manner deemed most efficient as determined by management.

Finding 7: *The Beneficiary disagrees with finding. As stated previously due to small size of company, limited resources, focus on provision of service to customers, company does not prepare monthly financial statements, nor does it go through a monthly "close" process therefore it does not prepare monthly allocations. Also, the company is unaware of any specific requirements that dictate monthly processing, again to the extent there is such a specific requirement in the rules we respectfully request a copy of said rule. As stated previously management will take this along with other findings issued in the final report and review to* *determine what steps can reasonably be implemented with the limited resources of company to satisfy this and the other audit findings/recommendations. At the same time the company will continue to operate in the manner deemed most efficient as determined by management.*

Finding 8: *The Beneficiary disagrees with finding. Due to the fact that the switching allocation and support were frozen by FCC order in 2011/2012 timeframe the company feels the switching component of this finding is moot. For remainder of finding on subscriber counts as indicated in several of the above response this is a very small company with many manual processes so the fact the lines were provided "with handwritten numbers" does not by itself make the inputs based on those numbers unsupported in our view. The switch allocation is not needed for future studies and for allocation of plant for 4DSL, XDSL, and FTH the company will allocate based on subscriber counts other than "handwritten"*

Finding 9: *Beneficiary disagrees with finding. The company, due to size and limited resources being dedicated to what management considers as less critical, non-service impacting operations when compared to the delivery of quality, dependable services they have focused the resources of company in other areas. This has resulted in an admittedly less than ideal system. However, it should be noted this system has never failed or been found to be materially lacking in controls by any of the various government and regulatory agencies nor by its external auditors in their annual audit, until this audit process which has now been going on for over 18+ months when a normal audit is completed within 4-6 months from start to finish. As stated previously management will take this along with other findings issued in the final report and review to determine what steps can reasonably be implemented with the limited resources of company to satisfy this and the other audit findings/recommendations. At the same time the company will continue to operate in the manner deemed most efficient as determined by management.*

Finding 10: *Beneficiary disagrees with finding. The company and its affiliates have followed the same basic process/concept for many years while undergoing multiple BCAP audits, PQAs, NECA reviews, etc. and until this most recent audit these same processes have never been a material issue. As stated previously management will take this along with other findings issued in the final report and review to determine what steps can reasonably be implemented with the limited resources of company to satisfy this and the other audit findings/recommendations. At the same time the company will continue to operate in the manner deemed most efficient as determined by management.*

Finding 11: *The company disagrees that CNAM expenses are not used for the Intended Purposes of Federal Universal Service Support. Without CNAM capabilities and access to the CNAM data the company would be unable to fulfill its obligations in provisioning of caller ID which is critical in the reduction and eventual elimination of unwanted robo calls which is a primary of objective of both the FCC and Congress. Additionally, it is the company's position that this capability is mandated by the FCC in Order DA-11-1089A1, therefore we do not agree that excluding FCC-mandated expenses in the cost study is appropriate.*

> *In regard to the food and beverage issue the company takes the position that this is both a necessary and economical use of funds. In those instances where a company employee*

is more than 1 hour away for their reporting location it only makes economic sense to allow said employee the option of purchasing a meal on site versus that same employee commuting back to office for an hour, eating lunch then commuting back to worksite for an hour. In a typical 8 hour day if we did not allow employees to purchase lunch when away from their primary reporting location the company would lose 4 out of 8 hours simply commuting (1 hour to get to work site at beginning of day, 1 hour to return to primary reporting location for lunch, 1 hour to return to work site after lunch and 1 hour to return to primary location versus the 6 hours of productive time by offering this option. It is management's understanding that they are obligated to do everything in their power to minimize waste, but this finding would seem to contradict that very concept. Because the company disagrees with both these findings, and due to fact that prior to this specific audit process neither of these were issues, no further action is anticipated by management at this time.

Finding 12: *The Beneficiary agrees with finding. This was a simple human error in the process of receiving and recording invoices. The Company will review processes and make every effort to avoid these type errors in future*

Finding 13: *Beneficiary disagrees with finding. Due to the very small size of the company and very limited resources the company has developed processes that have been acceptable in the past and are now being noted as exceptions. As a result of these practices being allowed previously the company assumed they were still acceptable. The company will review the internal record retention process and modify to ensure that older records are maintained going forward in compliance with FCC rules.*

Summary of the Low Income Support Mechanism Beneficiary Audit Reports Released: July 2024.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment A Telephone and Data Systems, Inc.	0	• Not applicable.	$371,369	$0	$0	N/A
Attachment B Windstream Holdings, Inc.	2	• **Improper Lifeline Claims: Lifeline Claims Systems (LCS) and State Database Variance:** The Holding Company did not have an adequate system in place for removing subscribers from its reimbursement claims who were not identified as eligible by the state Public Utility Commission (PUC).	$2,122,234	$411,504	$1,257[1]	N
Attachment C Consolidated Communications, Inc.	1	• No significant findings.	$1,079,652	$18,754	$18,754	N
Total	**3**		**$3,573,255**	**$430,258**	**$20,011**	

[1] The USAC Management Recovery Action amount is less than the Monetary Effect to prevent a double-recovery of funds already paid back to USAC.
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Attachment A

LI2022LR011

Available For Public Use

Telephone and Data Systems, Inc.

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2022LR011

CONTENTS

DP George & Company

EXECUTIVE SUMMARY

July 3, 2024

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

Dear Ms. Delmar:

DP George & Company, LLC (DPG) audited the compliance of Telephone and Data Systems, Inc. (Holding Company), for all study area codes (SACs) where the Holding Company claimed subscribers during January 2020 – June 2021, using the Federal Communications Commission (FCC) 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 Holding. DPG's responsibility is to make a determination regarding the Holding Company's compliance with the FCC Rules based on our limited review performance audit.

DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that DPG 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 DPG's findings and conclusions based on the audit objectives

Based on the test work performed, our audit did not disclose any areas 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 Universal Service Administrative Company (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 Holding Company, 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.

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

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

AUDIT RESULTS AND RECOVERY ACTION

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

PURPOSE, SCOPE, AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline program support the Holding Company received based on its Lifeline Claim System (LCS) submissions for the 18-month period from January 2020 through June 2021 (the audit period):

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
100005	ME	Non-Tribal Lifeline	5	$481
100007	ME	Non-Tribal Lifeline	4	$347
100010	ME	Non-Tribal Lifeline	28	$2,323
100011	ME	Non-Tribal Lifeline	68	$6,455
100024	ME	Non-Tribal Lifeline	127	$11,730
100031	ME	Non-Tribal Lifeline	5	$382
100034	ME	Non-Tribal Lifeline	49	$4,482
120045	NH	Non-Tribal Lifeline	17	$1,128
120047	NH	Non-Tribal Lifeline	57	$3,244
120049	NH	Non-Tribal Lifeline	11	$391
120050	NH	Non-Tribal Lifeline	6	$354
140058	VT	Non-Tribal Lifeline	28	$3,187
140061	VT	Non-Tribal Lifeline	46	$5,493
140062	VT	Non-Tribal Lifeline	9	$886
150089	NY	Non-Tribal Lifeline	75	$8,574
150092	NY	Non-Tribal Lifeline	21	$2,723
150114	NY	Non-Tribal Lifeline	5	$375
150118	NY	Non-Tribal Lifeline	20	$2,298
150129	NY	Non-Tribal Lifeline	25	$2,726
150133	NY	Non-Tribal Lifeline	9	$990
170183	PA	Non-Tribal Lifeline	28	$2,509
170206	PA	Non-Tribal Lifeline	5	$343
190217	VA	Non-Tribal Lifeline	20	$2,263
190253	VA	Non-Tribal Lifeline	7	$629
193029	VA	Non-Tribal Lifeline	6	$724
210338	FL	Non-Tribal Lifeline	124	$11,879
220338	GA	Non-Tribal Lifeline	1	$151
220346	GA	Non-Tribal Lifeline	45	$5,301
220351	GA	Non-Tribal Lifeline	55	$5,735
220375	GA	Non-Tribal Lifeline	21	$2,325
240533	SC	Non-Tribal Lifeline	12	$1,142
240535	SC	Non-Tribal Lifeline	1	$119

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
240544	SC	Non-Tribal Lifeline	37	$3,543
240551	SC	Non-Tribal Lifeline	29	$2,936
250284	AL	Non-Tribal Lifeline	76	$8,302
250311	AL	Non-Tribal Lifeline	25	$2,452
250314	AL	Non-Tribal Lifeline	92	$9,718
260411	KY	Non-Tribal Lifeline	306	$27,402
260412	KY	Non-Tribal Lifeline	10	$742
260417	KY	Non-Tribal Lifeline	31	$2,730
280448	MS	Non-Tribal Lifeline	33	$2,643
283301	MS	Non-Tribal Lifeline	23	$1,947
287449	MS	Non-Tribal Lifeline	5	$208
290559	TN	Non-Tribal Lifeline	5	$737
290566	TN	Non-Tribal Lifeline	4	$424
290575	TN	Non-Tribal Lifeline	263	$25,038
290578	TN	Non-Tribal Lifeline	92	$9,138
300585	OH	Non-Tribal Lifeline	1	$163
300607	OH	Non-Tribal Lifeline	6	$374
300613	OH	Non-Tribal Lifeline	3	$341
300645	OH	Non-Tribal Lifeline	7	$843
300662	OH	Non-Tribal Lifeline	1	$119
310672	MI	Non-Tribal Lifeline	5	$111
310677	MI	Non-Tribal Lifeline	2	$237
310685	MI	Non-Tribal Lifeline	19	$1,608
310726	MI	Non-Tribal Lifeline	11	$1,232
310738	MI	Non-Tribal Lifeline	19	$1,848
320744	IN	Non-Tribal Lifeline	9	$1,012
320776	IN	Non-Tribal Lifeline	16	$1,232
320777	IN	Non-Tribal Lifeline	1	$167
320778	IN	Non-Tribal Lifeline	5	$466
320809	IN	Non-Tribal Lifeline	2	$227
320829	IN	Non-Tribal Lifeline	11	$782
320830	IN	Non-Tribal Lifeline	6	$431
320837	IN	Non-Tribal Lifeline	5	$529
330844	WI	Non-Tribal Lifeline	90	$10,516
330849	WI	Non-Tribal Lifeline	1	$119
330851	WI	Non-Tribal Lifeline	7	$868
330856	WI	Non-Tribal Lifeline	7	$664
330859	WI	Non-Tribal Lifeline	80	$9,257
330875	WI	Non-Tribal Lifeline	5	$641
330880	WI	Non-Tribal Lifeline	39	$4,462
330881	WI	Non-Tribal Lifeline	38	$3,986
330909	WI	Non-Tribal Lifeline	98	$10,870
330914	WI	Non-Tribal Lifeline	16	$1,896
330915	WI	Non-Tribal Lifeline	25	$2,748
330917	WI	Non-Tribal Lifeline	24	$2,454
330930	WI	Non-Tribal Lifeline	31	$3,416
330943	WI	Non-Tribal Lifeline	11	$1,306
330945	WI	Non-Tribal Lifeline	26	$2,702
330952	WI	Non-Tribal Lifeline	9	$983

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
330954	WI	Non-Tribal Lifeline	12	$1,250
330955	WI	Non-Tribal Lifeline	31	$3,206
330958	WI	Non-Tribal Lifeline	12	$1,249
330963	WI	Non-Tribal Lifeline	79	$9,223
330968	WI	Non-Tribal Lifeline	18	$1,826
361350	MN	Non-Tribal Lifeline	90	$10,251
361362	MN	Non-Tribal Lifeline	21	$2,162
361433	MN	Non-Tribal Lifeline	43	$4,994
361507	MN	Non-Tribal Lifeline	6	$711
431984	OK	Non-Tribal Lifeline	63	$6,528
431984	OK	Tribal Lifeline	86	$32,907
432010	OK	Non-Tribal Lifeline	6	$675
432010	OK	Tribal Lifeline	13	$4,002
452171	AZ	Non-Tribal Lifeline	6	$614
452174	AZ	Non-Tribal Lifeline	13	$1,419
462184	CO	Non-Tribal Lifeline	47	$4,541
462207	CO	Non-Tribal Lifeline	4	$278
472230	ID	Non-Tribal Lifeline	8	$402
472230	ID	Tribal Lifeline	1	$51
522404	WA	Non-Tribal Lifeline	4	$533
522427	WA	Non-Tribal Lifeline	26	$2,703
522430	WA	Non-Tribal Lifeline	28	$2,980
542321	CA	Non-Tribal Lifeline	183	$16,878
542322	CA	Non-Tribal Lifeline	21	$1,783
542323	CA	Non-Tribal Lifeline	20	$1,532
542323	CA	Tribal Lifeline	1	$412
Total			**3,449**	**$371,369**

Notes:
The amount of support listed above reflects disbursements as of the commencement of the audit.

BACKGROUND

The Holding Company operates as an incumbent local exchange carrier (ILEC) in all the states identified in the Scope table above.

PROCEDURES

DPG performed the following procedures:

A. Lifeline Claim System

DPG obtained and examined the Holding Company's LCS submission for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Holding Company's data files. DPG 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 Holding Company's ETC-designated service area.
- The data file contained duplicate subscribers.

- The data file contained deceased 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

DPG obtained an understanding of the Holding Company's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Holding Company complied with Program Rules. DPG also obtained and examined certification and/or recertification documentation or National Verifier results for 445 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to comply with the Independent Economic Household (IEH) requirements. DPG obtained and tested documentation or National Verifier results for 11 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 445 subscribers.

E. Form 555

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

F. Minimum Service Standard

DPG obtained an understanding of the minimum services offered by the Holding Company. DPG examined the Holding Company's evidence of the level of service provided for 445 subscribers to determine whether the Holding Company provided eligible services that met the minimum service standards and complied with the FCC Rules.

G. Enrollment Representative Accountability

DPG obtained an understanding of the Holding Company's enrollment representative process relating to the Lifeline program to determine whether the Holding Company complied with the FCC Rules.

This concludes the report.

Attachment B

LI2021LR014

Available For Public Use

Windstream Holdings, Inc.

Limited Review Audit on Compliance with the Federal Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2021LR014

CONTENTS

EXECUTIVE SUMMARY

July 3, 2024

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

Dear Ms. Delmar:

DP George & Company, LLC (DPG) audited the compliance of Windstream Holdings, Inc. (Holding Company), for all study area codes (SACs) where the Holding Company claimed subscribers during calendar year 2019 (the audit period), using select Federal Communications Commission (FCC) rules and regulations related to the Lifeline Program, including those set forth in C.F.R. Title 47, Part 54 (collectively, FCC Rules). Compliance with the FCC Rules is the responsibility of the Holding Company's management. DPG's responsibility is to make a determination regarding the Holding Company's compliance with the FCC Rules based on our limited review audit.

DPG conducted the audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that DPG 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 DPG's findings and conclusions based on the audit objectives.

Based on the test work performed, our audit disclosed two detailed audit findings (Finding) in the Detailed Audit Findings 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 Universal Service Administrative Company (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 Holding Company, 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.

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

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)	Previous or Overlapping Recovery[1] (B)	Recommended Recovery (A) - (B)
Finding #1: 47 C.F.R. § 54.407(a) Improper Lifeline Claims: Lifeline Claims System (LCS) and State Database Variance. The Holding Company did not have an adequate system in place for removing subscribers from its LCS claims who were not identified as eligible by the state Public Utilities Commission (PUC).	$410,247	$410,247	$0
Finding #2: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification Forms, Eligibility, and Recertification Documentation. The Holding Company did not have adequate documentation or data retention procedures to ensure the proper retention of subscriber certification and recertification documentation.	$1,257	$0	$1,257
Total Net Monetary Effect	**$411,504**	**$410,247**	**$1,257**

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 Holding Company complied with the FCC Rules.

SCOPE

The Holding Company claimed 35,009 subscribers and $2,122,234 in support for data months January 2019 through December 2019, the period covered by our audit. The following chart details the subscriber claims and support received amounts by Study Area Code (SAC).

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
150106	NY	Non-Tribal Lifeline	184	$9,280
150109	NY	Non-Tribal Lifeline	353	$17,500
150113	NY	Non-Tribal Lifeline	8	$331
159003	NY	Non-Tribal Lifeline	116	$10,704
170151	PA	Non-Tribal Lifeline	90	$8,214

[1] Windstream paid $787,397 to USAC for an audit finding identified in payment claims review PI-042020-TX. The $410,247 amount identified by this audit represents the 2019 portion of the total payment.

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
170162	PA	Non-Tribal Lifeline	133	$12,514
170165	PA	Non-Tribal Lifeline	135	$12,694
170176	PA	Non-Tribal Lifeline	1,104	$104,303
210336	FL	Non-Tribal Lifeline	3,210	$146,304
210336	FL	Tribal Lifeline	1	$9
220357	GA	Non-Tribal Lifeline	469	$23,498
220364	GA	Non-Tribal Lifeline	87	$4,445
220386	GA	Non-Tribal Lifeline	774	$39,086
220395	GA	Non-Tribal Lifeline	20	$1,024
223036	GA	Non-Tribal Lifeline	731	$35,326
223037	GA	Non-Tribal Lifeline	2,199	$107,944
230474	NC	Non-Tribal Lifeline	333	$29,038
230474	NC	Tribal Lifeline	1	$9
230476	NC	Non-Tribal Lifeline	571	$49,976
230482	NC	Non-Tribal Lifeline	0	$0
240517	SC	Non-Tribal Lifeline	281	$14,042
250302	AL	Non-Tribal Lifeline	131	$6,292
260402	KY	Non-Tribal Lifeline	68	$5,692
269690	KY	Non-Tribal Lifeline	2,192	$190,826
269691	KY	Non-Tribal Lifeline	1,134	$101,476
280453	MS	Non-Tribal Lifeline	36	$3,190
300665	OH	Non-Tribal Lifeline	657	$31,993
300666	OH	Non-Tribal Lifeline	863	$42,211
351167	IA	Non-Tribal Lifeline	611	$30,003
351170	IA	Non-Tribal Lifeline	365	$18,170
351170	IA	Tribal Lifeline	1	$9
351178	IA	Non-Tribal Lifeline	531	$26,187
351248	IA	Non-Tribal Lifeline	7	$301
359066	IA	Non-Tribal Lifeline	0	$0
359106	IA	Non-Tribal Lifeline	0	$0
361414	MN	Non-Tribal Lifeline	108	$5,392
361482	MN	Non-Tribal Lifeline	42	$2,089
371568	NE	Non-Tribal Lifeline	1,891	$94,717
401691	AR	Non-Tribal Lifeline	667	$32,133
421885	MO	Non-Tribal Lifeline	520	$44,937
431165	OK	Non-Tribal Lifeline	549	$21,330
431165	OK	Tribal Lifeline	321	$37,772
431965	OK	Non-Tribal Lifeline	113	$3,699
431965	OK	Tribal Lifeline	113	$12,645
432011	OK	Non-Tribal Lifeline	251	$7,872
432011	OK	Tribal Lifeline	272	$29,864
441163	TX	Non-Tribal Lifeline	9,977	549,534
442097	TX	Non-Tribal Lifeline	365	20,871
442147	TX	Non-Tribal Lifeline	814	51,801
442153	TX	Non-Tribal Lifeline	810	44,208
491164	NM	Non-Tribal Lifeline	205	$19,734
491193	NM	Non-Tribal Lifeline	559	$51,881
491193	NM	Tribal Lifeline	36	$9,164
Total			**35,009**	**$2,122,234**

Notes:
The amount of support listed above reflects disbursements as of the commencement of the audit.

BACKGROUND

The Holding Company operates as a competitive eligible telecommunications carrier (ETC) in all the states identified in the Scope table above.

PROCEDURES

DPG performed the following procedures:

A. Lifeline Claim System

DPG obtained and examined the Holding Company's LCS submission for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Holding Company's data files. DPG 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 Holding Company'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

DPG obtained an understanding of the Holding Company's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Holding Company complied with Program Rules. DPG also obtained and examined certification and/or recertification documentation or National Verifier (NV) results for 565 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to comply with the Independent Economic Household (IEH) requirements. DPG obtained and tested documentation or NV results for 33 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 565 subscribers.

E. Form 555

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

F. Non-Usage Process

DPG obtained an understanding of the Holding Company's non-usage process relating to the Lifeline Program to determine whether the Holding Company complied with the FCC Rules. DPG also examined documentation for 565 subscribers to determine whether the Holding Company properly validated continued use of the Lifeline-supported service. The Scope of this audit did not include an assessment of the Beneficiary's systems that provision, process, and monitor subscribers' usage activities.

G. Minimum Service Standard

DPG obtained an understanding of the minimum services offered by the Holding Company. DPG examined the Holding Company's evidence of the level of service provided for 565 subscribers to determine whether the Holding Company provided eligible services that met the minimum service standards and complied with the FCC Rules.

H. Reseller-based Telecommunication Providers

DPG obtained an understanding of the Holding Company's leased phone lines relating to the Lifeline Program to determine whether the Holding Company complied with the FCC Rules. DPG also examined documentation to determine whether the Holding Company properly claimed Lifeline Program subscribers that used the leased phone lines.

I. Enrollment Representative Accountability

DPG obtained an understanding of the Holding Company's enrollment representative process relating to the Lifeline Program and whether enrollment representatives were compensated on a commission basis.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.407(a) – Improper Lifeline Claims: Lifeline Claims System (LCS) and State Database Variance

CONDITION

DPG requested missing subscriber information not populated in LCS for SACs 441163, 442097, 442147, and 442153 because they are administered by the Texas state administrator and not through the National Lifeline Accountability Database (NLAD). When responding to that request, the Holding Company identified LCS claims in 2019 that were ineligible for Lifeline support because the corresponding subscribers were not listed in the Low-Income Discount Administrator (LIDA) database provided by the Public Utility Commission of Texas (PUCT) for the month claimed.[2] Because the PUCT informs the Holding Company of qualifying monthly low-income consumers via the monthly LIDA report, subscribers not listed as eligible on the report must be removed from the LCS claim.[3] The Holding Company indicated that the ineligible claims were identified as the result of an April 2020 USAC support payment claims review (PI042020-TX).

CAUSE

The Holding Company did not have an adequate system in place for removing subscribers who were not identified as eligible by the state Public Utilities Commission (PUC) from its LCS claims.

EFFECT

SAC Number	Support Type	Monetary Effect (A)	Previously Recovered (B)[4]	Recommended Recovery (A) – (B)
441163	Non-Tribal Lifeline	$343,221	$343,221	$0
442153	Non-Tribal Lifeline	$29,073	$29,073	$0
442147	Non-Tribal Lifeline	$26,326	$26,326	$0
442097	Non-Tribal Lifeline	$11,627	$10,627	$0
	Total:	**$410,247**	**$410,247**	**$0**

The Holding Company provided documentation confirming payment to USAC for a decision letter amount of $787,397. DPG confirmed that $125,264 of the decision amount was recovered by withholding payment for the September 2021 claim month. The remaining amount of $662,133 was paid directly to USAC on December 30, 2021. DPG reconciled the payment amounts against both USAC and Holding Company data and determined that 44,351 of the repaid claims occurred in 2019. DPG calculated the 2019 monetary effect by multiplying the 44,351 Lifeline support claims that occurred between 9,018 subscribers by the support amount requested on LCS ($9.25) and rounded to the nearest whole dollar.

Support Type	Instances	Rate	Monetary Effect
Non-Tribal Lifeline	44,351	9.25	$410,247
		Total:	**$410,247**

[2] *See* 47 C.F.R. § 54.407(a) (2018).
[3] *See* Texas Admin Code §§ 26.412(g)(2)(A)(iii) and (iv) (2018).
[4] $410,247 of the monetary effect for this finding was previously recovered in PI042020-TX.

RECOMMENDATION

DPG makes no recommendation with respect to recovery of the monetary effect because the amount was already paid by the Holding Company.

DPG recommends that the Holding Company implement a process to identify and remove subscribers from its LCS claims who are not identified as eligible in the LIDA database.

HOLDING COMPANY RESPONSE

The disparity between the state and federal lifeline customers in Texas was identified in November 2019 and the process to properly sync the LIDA database to the federal lifeline credits was modified over 4-years ago in December 2019. In addition, LIDA now sends a monthly report to USAC showing the eligible customers to ensure that the eligible lifeline customers are in sync between LIDA and LCS.

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

CONDITION

DPG obtained and examined (when provided), certification and eligibility documentation for a statistically based sample of 219 subscribers and recertification documentation for a statistically based sample of 346 subscribers, to determine whether subscribers were eligible to receive Lifeline program support claimed by the Holding Company. Of the 565 sampled subscribers the Holding Company was responsible for eligibility and recertification documentation for 295 subscribers while USAC was responsible for 270 subscribers.

For the 188 samples where the Holding Company was responsible for the documentation, 20 subscribers in total either lacked documentation or the documentation provided was not adequate to satisfy the requirements detailed below:[5]

Lack of Documentation	**No. of Affected Subscribers**
Certification Forms for newly enrolled subscribers.[6]	4
Eligibility documents for newly enrolled subscribers.[7]	4
Recertification Forms.[8]	2
Inadequate Documentation	
Only the date of completion was provided for Interactive Voice Response (IVR) records. The subscriber responses to the questions asked were not provided.[9]	14
Total No. of Affected Subscribers[10]	**20**

[5] *See* 47 C.F.R. § 54.417(a).
[6] *See* 47 C.F.R. § 54.410(d).
[7] *See* 47 C.F.R. § 54.404(b)(11).
[8] *See* 47 C.F.R. § 54.410(f)(2)(iii).
[9] *See* 47 C.F.R. § 54.410(f)(1), (2).
[10] Some samples identified multiple exception types. Therefore, the same subscriber may be included in multiple rows in the table above.

CAUSE

The Holding Company did not have adequate documentation or data retention procedures to ensure the proper retention of subscriber certification and recertification documentation.

EFFECT

SAC Number	Support Type	Monetary Effect and Recommended Recovery
432011	Tribal Lifeline	$225
210336	Non-Tribal Lifeline	$120
431965	Tribal Lifeline	$115
223037	Non-Tribal Lifeline	$111
220357	Non-Tribal Lifeline	$111
421885	Non-Tribal Lifeline	$109
351248	Non-Tribal Lifeline	$109
269691	Non-Tribal Lifeline	$109
491193	Non-Tribal Lifeline	$83
220395	Non-Tribal Lifeline	$56
300665	Non-Tribal Lifeline	$56
159003	Non-Tribal Lifeline	$35
300666	Non-Tribal Lifeline	$9
150113	Non-Tribal Lifeline	$9
	Total:	**$1,257**

DPG calculated the monetary effect of $1,257 by first determining the number of instances (months) the Holding Company claimed the 20 subscribers. DPG identified a total of 115 such instances. DPG multiplied the 115 instances by the support amount requested in the 2019 LCS submissions and rounded to the nearest whole dollar.

Support Type	Instances	Rate	Monetary Effect
Non-Tribal Lifeline	96	9.25	$888
Non-Tribal Lifeline	4	7.25	$29
Tribal Lifeline	4	23.38	$94
Tribal Lifeline	10	22.48	$225
Tribal Lifeline	1	21.38	$21
		Total:	**$1,257**

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. The responsibility for performing certification and recertification subsequently shifted to the National Verifier. Therefore, DPG makes no further recommendation.

HOLDING COMPANY RESPONSE

The Holding company agrees with the recommendation.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.407(a) (2018)	"(a) Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income consumers it serves directly as of the first day of the month."
#1	Texas Admin Code § 26.412(g)(2)(A)(iii) and (iv) (2018)	"(2) Obligations of Lifeline Providers (A) A Lifeline provider shall only provide Lifeline Services to all eligible customers identified by the LIDA within its service area in accordance with this section… (iii) Monthly, all ETCs, ETPs RETPs, and certificated providers providing telephone services in Texas must provide a file of its residential customers in a format and date determined by LIDA, for Lifeline processing. (iv) Upon receipt of the monthly update provided by the LIDA, a Lifeline provider shall begin reduced billing for those qualifying low-income customers subscribing to services within 30 days."
#2	47 C.F.R. § 54.417(a) (2018)	"(a) 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 … [47 C.F.R. §] 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years."
#2	47 C.F.R. § 54.410 (d) (2018)	"(d) *Eligibility certification form.* Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program."
#2	47 C.F.R. § 54.404(b)(11) (2018)	"(11) All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or investigations or to the extent required by NLAD processes, which require, inter alia, verification of eligibility, identity, address, and age."
#2	47 C.F.R. § 54.410 (f)(1), (2) (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

Finding	Criteria	Description
		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 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 certification 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."

This concludes the report.

Attachment C

LI2021LR013

DP George & Company

Consolidated Communications, Inc.

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

USAC Audit No. LI2021LR013

CONTENTS

DP George & Company

EXECUTIVE SUMMARY

July 17, 2024

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

Dear Ms. Delmar:

DP George & Company, LLC (DPG) audited the compliance of Consolidated Communications, Inc. (Holding Company), for all study area codes (SACs) where the Holding Company claimed subscribers during calendar year 2019 (the audit period), using select Federal Communications Commission (FCC) rules and regulations related to the Lifeline Program, including those set forth in C.F.R. Title 47, Part 54 (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Holding Company's management. DPG's responsibility is to make a determination regarding the Holding Company's compliance with the FCC Rules based on our limited review audit.

DPG conducted the audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that DPG 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 DPG's findings and conclusions based on the audit objectives.

Based on the test work performed, our audit disclosed one detailed audit finding (Finding) in the Detailed Audit Finding 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 Universal Service Administrative Company (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 Holding Company, 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.

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

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

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect and Recommended Recovery
Finding #1: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification, Recertification, and Pass-Through Documentation. The Holding Company lacked documentation or data retention procedures to ensure the proper retention of subscriber certification and recertification documentation, and subscriber billing information.	$18,754
Total	**$18,754**

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 Holding Company complied with the FCC Rules.

SCOPE

The Holding Company claimed 12,289 subscribers and $1,079,652 in support for data months January 2019 through December 2019, the period covered by our audit. The following chart details the subscriber claims and support received amounts by Study Area Code (SAC).

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
100004	ME	Non-Tribal Lifeline	21	$2,189
100015	ME	Non-Tribal Lifeline	78	$7,542
100025	ME	Non-Tribal Lifeline	57	$5,171
103313	ME	Non-Tribal Lifeline	317	$31,206
105111	ME	Non-Tribal Lifeline	3695	$351,585
105111	ME	Tribal Lifeline	19	$4,789
125113	NH	Non-Tribal Lifeline	645	$62,814
143331	VT	Non-Tribal Lifeline	133	$11,092
145115	VT	Non-Tribal Lifeline	2950	$230,207
150073	NY	Non-Tribal Lifeline	20	$1,934
150078	NY	Non-Tribal Lifeline	60	$6,088
150084	NY	Non-Tribal Lifeline	106	$9,798
170145	PA	Non-Tribal Lifeline	16	$1,722
170185	PA	Non-Tribal Lifeline	9	$872
170193	PA	Non-Tribal Lifeline	172	$16,980
210291	FL	Non-Tribal Lifeline	42	$3,701
210329	FL	Non-Tribal Lifeline	131	$10,550

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
210339	FL	Non-Tribal Lifeline	303	$23,765
300604	OH	Non-Tribal Lifeline	1	$109
300618	OH	Non-Tribal Lifeline	6	$564
300649	OH	Non-Tribal Lifeline	19	$1,646
341004	IL	Non-Tribal Lifeline	1	$83
341009	IL	Non-Tribal Lifeline	1	$109
341037	IL	Non-Tribal Lifeline	393	$27,624
341065	IL	Non-Tribal Lifeline	11	$965
361375	MN	Non-Tribal Lifeline	108	$8,887
361427	MN	Non-Tribal Lifeline	317	$27,021
411835	KS	Non-Tribal Lifeline	11	$1,033
420472	MO	Non-Tribal Lifeline	0	$0
421472	MO	Non-Tribal Lifeline	15	$1,619
431981	OK	Non-Tribal Lifeline	22	$1,694
431981	OK	Tribal Lifeline	47	$10,306
442072	TX	Non-Tribal Lifeline	119	$8,528
442109	TX	Non-Tribal Lifeline	848	$73,487
461835	CO	Non-Tribal Lifeline	4	$385
462192	CO	Non-Tribal Lifeline	3	$192
462204	CO	Non-Tribal Lifeline	17	$1,528
522412	WA	Non-Tribal Lifeline	51	$4,585
522453	WA	Non-Tribal Lifeline	81	$7,849
542334	CA	Non-Tribal Lifeline	1350	$112,692
549012	CA	Non-Tribal Lifeline	90	$6,741
Total			**12,289**	**$1,079,652**

Notes:
The amount of support listed above reflects disbursements as of the commencement of the audit.

BACKGROUND

The Holding Company operates as an Incumbent Local Exchange Carrier (ILEC) in all the states identified in the Scope table above.

PROCEDURES

DPG performed the following procedures:

A. Lifeline Claim System

DPG obtained and examined the Holding Company's LCS submission for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Holding Company's data files. DPG 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 Holding Company'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

DPG obtained an understanding of the Holding Company's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Holding Company complied with Program Rules. DPG also obtained and examined certification and/or recertification documentation or National Verifier (NV) results for 479 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

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

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 479 subscribers.

E. Form 555

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

F. Minimum Service Standard

DPG obtained an understanding of the minimum services offered by the Holding Company. DPG examined the Holding Company's evidence of the level of service provided for 479 subscribers to determine whether the Holding Company provided eligible services that met the minimum service standards and complied with the FCC Rules.

G. Enrollment Representative Accountability

DPG obtained an understanding of the Holding Company's enrollment representative process relating to the Lifeline Program and whether enrollment representatives were compensated on a commission basis.

DETAILED AUDIT FINDING

Finding #1: 47 C.F.R. § 54.417(a) – Lack of Documentation: Subscriber Certification, Re-certification and Pass-Through Documentation

CONDITION

DPG obtained and examined (when provided) certification and eligibility documentation for a statistically based sample of 183 subscribers and recertification documentation for a statistically based sample of 296 subscribers.[1] DPG also selected a sample of 60 subscribers who were listed as de-enrolled on the Form 555 results reported for 2018 and who were claimed in 2019. DPG obtained and examined (when provided) certification documentation to verify that the subscribers re-enrolled by completing a new certification form prior to being claimed in 2019. Testing for all samples was performed to determine whether subscribers were eligible to receive the Lifeline program support claimed by the Holding Company. Of the 539 sampled subscribers the Holding Company was responsible for eligibility and recertification documentation for 289 subscribers while USAC was responsible for 250 subscribers. Of the 479 samples tested for pass-through, the Holding Company was responsible for all documentation.

For the 289 samples where the Holding Company was responsible for certification and recertification documentation, 201 subscribers in total lacked documentation to satisfy the requirements. For the 479 samples where the Holding Company was responsible for evidencing pass-through of the Lifeline benefit, 74 subscribers in total lacked documentation to demonstrate pass-through. In total, 240 subscribers lacked documentation to support testing as detailed below:[2]

Lack of Documentation	No. of Affected Subscribers
Certification notification from state Lifeline administrator or other state agency.[3]	65
Certification Forms for newly enrolled subscribers.[4]	66
Eligibility documents for newly enrolled subscribers.[5]	66
Re-certification evidence from state Lifeline administrator or other state agency.[6]	69
Recertification Forms.[7]	1
No. of Affected Subscribers – Certification and Recertification[8]	**201**
Pass-Through Documentation (copy of bill sent to subscriber).[9]	74
No. of Affected Subscribers – Certification, Recertification and Pass-Through[10]	**240**

[1] Pass-through documentation was requested for both the certification and recertification samples.
[2] *See* 47 C.F.R. § 54.417(a).
[3] *See* 47 C.F.R. § 54.410(b)(2) and (c)(2).
[4] *See* 47 C.F.R. § 54.410(d).
[5] *See* 47 C.F.R. § 54.404(b)(11).
[6] *See* 47 C.F.R. § 54.410(f)(4).
[7] *See* 47 C.F.R. § 54.410(f)(2)(iii).
[8] Some samples identified multiple exception types. Therefore, the number of affected subscribers is not equal to the sum of the exceptions.
[9] *See* 47 C.F.R. § 54.403(a).
[10] Some samples identified multiple exception types. Therefore, the number of affected subscribers is not equal to the sum of the exceptions.

Without documentation to support eligibility or pass through of the Lifeline credit/service, DPG was not able to conclude that these subscribers qualified to receive Lifeline support.[11]

CAUSE

The Holding Company did not have adequate documentation or data retention procedures to ensure the proper retention of subscriber certification and recertification documentation, eligibility documentation or eligibility approval from a third-party, and pass-through of Lifeline service or credits.

DPG identified the following causes specific to why the Holding Company was unable to provide missing certification and recertification documentation:

- For 36 subscribers in Texas and 47 subscribers in California, the Holding Company did not maintain documentation from the Third-Party Administrator reflecting the subscriber's eligibility.
- For 44 subscribers in Vermont, the email approval provided by the state was sent to employees who were no longer with the company.
- For 43 subscribers in Maine, the Holding Company changed third-party providers and was not able to access the application and eligibility documentation retained by the previous provider.
- For 10 subscribers, the original certification or recertification documentation was inadvertently shredded.
- For 7 subscribers, the Holding Company was unable to locate eligibility confirmation from the Minnesota Department of Health.
- For 3 subscribers, the Holding Company was unable to provide the certification or recertification documentation that corresponded to the enrollment date listed for the subscriber.
- For the remaining 11 subscribers, the Holding Company did not provide a detailed explanation for the missing documentation.

No specific reasons were provided for the missing pass-through documentation.

[11] See 47 C.F.R. § 54.407(a) (2018).

EFFECT

SAC Number	Support Type	Monetary Effect and Recommended Recovery
105111	Non-Tribal Lifeline	$3,992
542334	Non-Tribal Lifeline	$2,918
105111	Tribal Lifeline	$2,758
145115	Non-Tribal Lifeline	$2,692
442109	Non-Tribal Lifeline	$2,071
549012	Non-Tribal Lifeline	$829
361427	Non-Tribal Lifeline	$524
361375	Non-Tribal Lifeline	$462
442072	Non-Tribal Lifeline	$429
210339	Non-Tribal Lifeline	$230
170145	Non-Tribal Lifeline	$218
421472	Non-Tribal Lifeline	$218
341037	Non-Tribal Lifeline	$188
100015	Non-Tribal Lifeline	$152
170193	Non-Tribal Lifeline	$137
143331	Non-Tribal Lifeline	$109
300649	Non-Tribal Lifeline	$109
341065	Non-Tribal Lifeline	$109
411835	Non-Tribal Lifeline	$109
461835	Non-Tribal Lifeline	$109
210291	Non-Tribal Lifeline	$98
150084	Non-Tribal Lifeline	$63
522412	Non-Tribal Lifeline	$63
522453	Non-Tribal Lifeline	$53
100025	Non-Tribal Lifeline	$43
103313	Non-Tribal Lifeline	$36
210329	Non-Tribal Lifeline	$35
	Total:	**$18,754**

DPG calculated the monetary effect of $18,754 by first determining the number of instances (months) the Holding Company claimed the 240 subscribers. DPG identified a total of 1,879 such instances. DPG multiplied the 1,879 instances by the support amount requested in the 2019 LCS submissions and rounded to the nearest whole dollar.

Support Type	Instances	Rate	Monetary Effect
Non-Tribal Lifeline	1,601	$9.25	$14,809
Non-Tribal Lifeline	165	$7.25	$1,196
Tribal Lifeline	108	$24.25	$2,619
Tribal Lifeline	3	$26.99	$81
Tribal Lifeline	2	$24.49	$49
		Total:	**$18,754**

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. DPG also recommends that the Holding Company establish documentation retention procedures to ensure that certification, eligibility, and recertification notifications received from Third-Party administrators or obtained in states not transitioned to the National Verifier is maintained in accordance with FCC Rules. DPG further recommends that the Holding Company establish procedures to ensure that documentation is maintained to evidence that the Lifeline support benefit was passed through to the subscriber.

HOLDING COMPANY RESPONSE

Consolidated Communications acknowledges DPG finding #1 for the 2019 Consolidated Communications Lifeline audit. The finding will be shared with the appropriate Consolidated Communications staff to help improve our Lifeline process going forward.

CRITERIA

Finding	Criteria	Description
#1	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 … [47 C.F.R. §] 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years."
#1	47 C.F.R. § 54.410 (b)(2) (2018)	"(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, an eligible telecommunications carrier must not seek reimbursement for providing Lifeline service to a subscriber, based on that subscriber's income eligibility, unless the carrier has received from the National verifier, state Lifeline administrator, or other state agency: (i) Notice that the prospective subscriber meets the income-eligibility criteria set forth in § 54.409(a)(1); and (ii) If a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, a copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section. (iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417."
#1	47 C.F.R. § 54.410 (c)(2) (2018)	"(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based eligibility criteria provided in § 54.409(a)(2) or (b), an eligible telecommunications carrier must not seek reimbursement for providing Lifeline service to a subscriber, based on that subscriber's income eligibility, unless the carrier has received from the National verifier, state Lifeline administrator, or other state agency: (i) Notice that the prospective subscriber meets the program-based-eligibility criteria set forth in § 54.409(a)(2) or (b); and (ii) If a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, a copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section.

Finding	Criteria	Description
		(iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.”
#1	47 C.F.R. § 54.410 (d) (2018)	“(d) *Eligibility certification form.* Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber’s eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program.”
#1	47 C.F.R. § 54.404 (b)(11) (2018)	”(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.”
#1	47 C.F.R. § 54.410 (f)(2)(4) (2018)	“(2) In order to re-certify a subscriber’s eligibility, an eligible telecommunications carrier must confirm a subscriber’s current eligibility to receive Lifeline by: (i) Querying the appropriate eligibility databases, confirming that the subscriber still meets the program based eligibility requirements for Lifeline, and documenting the results of that review; or (ii) Querying the appropriate income databases, confirming that the subscriber continues to meet the income-based eligibility requirements for Lifeline, and documenting the results of that review. (iii) If the subscriber’s program-based or income-based eligibility for Lifeline cannot be determined by accessing one or more state databases containing information regarding enrollment in qualifying assistance programs, then the eligible telecommunications carrier may obtain a signed certification from the subscriber on a form that meets the certification requirements in paragraph (d) of this section. If a Federal eligibility recertification form is available, entities enrolling subscribers must use such form to 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…. (4) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for re-certification or subscriber’s 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.”
#1	47 C.F.R. § 54.403(a) (2018)	“(a) The federal Lifeline support amount for all eligible telecommunications carriers shall equal: (1) Basic support amount. Federal Lifeline support in the amount of $9.25 per month will be made available to an eligible

Finding	Criteria	Description
		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. (2) For a Lifeline provider offering either standalone voice service, subject to the minimum service standards set forth in § 54.408, or voice service with broadband below the minimum standards set forth in § 54.408, the support levels will be as follows: (i) Until December 1, 2019, the support amount will be $9.25 per month. (ii) From December 1, 2019 until November 30, 2020, the support amount will be $7.25 per month. (3) Tribal lands support amount. Additional federal Lifeline support of up to $25 per month will be made available to an eligible telecommunications carrier providing facilities-based Lifeline service to an eligible resident of Tribal lands, as defined in § 54.400(e), if the subscriber's residential location is rural, as defined in § 54.505(b)(3)(i) and (ii), and the eligible telecommunications carrier certifies to the Administrator that it will pass through the full Tribal lands support amount to the qualifying eligible resident of Tribal lands and that it has received any non-federal regulatory approvals necessary to implement the required rate reduction.”
#1	47 C.F.R. § 54.407(a) (2018)	“(a) Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income customers it serves directly as of the first day of the month. After the National Verifier is deployed in a state, reimbursement shall be provided to an eligible telecommunications carrier based on the number of actual qualifying low-income customers it serves directly as of the first day of the month found in the National Verifier.”

This concludes the report.

<u>Summary of the Low Income Support Mechanism Beneficiary Audit Report Released: August 2024.</u>

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment D Warm Springs Telecommunications Co.	0	• Not applicable.	$80,034	$0	$0	N/A
Total	**0**		**$80,034**	**$0**	**$0**	

Attachment D

LI2023LR009

Warm Springs Telecommunications Company

Audit ID: LI2023LR009

Universal Service Administrative Company - Lifeline Program

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

Prepared for: Universal Service Administrative Company ("USAC")

As of Date: July 31, 2024

KPMG LLP
1801 K Street NW, Suite 12000
Washington, D.C. 20006

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EXECUTIVE SUMMARY

July 31, 2024

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 limited review performance audit objective relative to Warm Springs Telecommunications Company ("Warm Springs Tel" or "Beneficiary") for Study Area Code ("SAC") 539012, where the Beneficiary claimed subscribers for reimbursement from the Universal Service Fund ("USF") Low Income Support Mechanism (also known as the Lifeline Program) for July 1, 2021, to June 30, 2022. Our work was performed from March 31, 2023, to July 31, 2024 and our results are as of July 31, 2024.

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

In addition to GAGAS, we conducted this limited review 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 limited review performance audit was to evaluate the Beneficiary's compliance with select Federal Communications Commission's ("FCC") rules and regulations and orders related to the Lifeline Program, including those set forth in 47 C.F.R. ("Code of Federal Regulations") Part 54, Subpart E, (collectively "FCC Rules").

Compliance with FCC Rules is the responsibility of the Beneficiary who is required to affirmatively demonstrate compliance with the applicable rules. Our responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our audit objective.

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

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

In addition, we also noted a finding that is not significant within the context of the audit objective but warrants the attention of those charged with governance. We reported this finding to the Beneficiary's management in a separate letter dated July 31, 2024.

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. Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes. This report is not confidential and may be released by USAC and the FCC.

Sincerely,

KPMG LLP

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

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVE, SCOPE, AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation operating under the direction of the FCC pursuant to 47 C.F.R. Part 54. USAC is the permanent administrator of the USF, which includes four support mechanisms: High Cost, Lifeline, Rural Health Care, and E-Rate. With these four support mechanisms, USAC is dedicated to achieving universal service. This important principle suggests that all Americans deserve accessible, affordable and pervasive telephone and internet services.

The Lifeline Program provides eligible low-income consumers a discount on qualifying monthly telephone service, broadband Internet service or bundled voice-broadband packages purchased from participating wireline and wireless providers.

USAC utilizes the National Verifier ("NV"), which for NV states determines eligibility and the necessity of one Lifeline service per independent economic household ("IEH") documentation, provides the carrier with eligibility and recertification documentation, performs the recertification process, and notifies the Beneficiary of any subscribers requiring de-enrollment for reasons other than non-usage.

The Lifeline Program within the opt out states of California, Oregon and Texas is administered by third party administrators ("TPA") and does not utilize the NV. The TPA for each of these states determines eligibility and the necessity of IEH documentation, provides the carrier with eligibility and recertification documentation, performs the recertification process, and notifies the Beneficiary of any subscribers requiring de-enrollment for reasons other than non-usage.

Beneficiary Overview

Warm Springs Telecommunications Company, located in Warm Springs, Oregon, provides wireline telephone, internet and television services. The Beneficiary, wholly owned by the Confederated Tribes of Warm Springs, is an eligible telecommunications carrier ("ETC") that provides services to residents of the Confederated Tribes of Warm Springs within the state of Oregon.

The following chart summarizes the Lifeline program support disbursed by USAC to the Beneficiary based on its Lifeline Claim System ("LCS") submissions for July 1, 2021 through June 30, 2022:

SAC	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
539012	Oregon	Tribal Lifeline	3,225	$80,034
TOTAL			**3,225**	**$80,034**

OBJECTIVE

The objective of this limited review performance audit was to evaluate the Beneficiary's compliance with select FCC rules and regulations and orders related to the Lifeline Program, including those set forth in 47 C.F.R. Part 54, Subpart E, (collectively "FCC Rules").

SCOPE

The scope of our work relates to reimbursement on Lifeline Claim System submissions made from the Lifeline Program for July 1, 2021 to June 30, 2022 as of March 21, 2023 related to the SACs noted in the Beneficiary overview section above.

Our performance audit includes the following areas, as defined by the FCC for Lifeline limited review performance audits:

1. Lifeline Claim System
2. Program Eligibility and Certification Process
3. Independent Economic Households
4. Waivers
5. Lifeline Support Pass-Through
6. Minimum Service Standards
7. Reseller-based Telecommunication Providers
8. Enrollment Representative Accountability

PROCEDURES

KPMG performed the following procedures to address the limited review performance audit objective:

1. **Lifeline Claim System**

   KPMG obtained and examined the Beneficiary's LCS submission for accuracy by comparing to the National Lifeline Accountability Database ("NLAD") or the Beneficiary's data files. KPMG 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 Holding Company's ETC-designated service area, or for tribal subscribers, outside the designated tribal area.
   - The data file contained duplicate subscribers.
   - The data file contained deceased subscribers.
   - The data file contained blank social security, date of birth, telephone number, address fields 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.

2. **Program Eligibility and Certification Process**

   For opt-out state SAC 539012, KPMG obtained an understanding of the Beneficiary's enrollment, program eligibility, and certification processes relating to the Lifeline program to determine whether the Beneficiary complied with the FCC Rules. KPMG examined the third-party state administrator documentation for 28 subscribers to determine whether the subscribers were eligible to receive program discounts.

3. **Independent Economic Households**
   For the opt-out state SAC 539012, KPMG 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 IEH requirements. KPMG obtained and tested documentation for the only two subscribers claimed in the same month at the same address to determine the subscribers properly certified compliance with the IEH requirements.

4. **Waivers**
   KPMG obtained an understanding of the Beneficiary's waiver status to assess whether any waivers issued by the FCC had any impact during the audit period. KPMG observed a COVID Lifeline waiver related to subscriber recertification was in effect during our audit period; therefore, subscriber recertification testing is not in scope.

5. **Lifeline Support Pass-Through**
   KPMG obtained and examined documentation to demonstrate the pass-through of Lifeline Program support for 28 subscribers.

6. **Minimum Service Standards**
   KPMG obtained and examined the Beneficiary's evidence of the level of service provided for all subscribers to determine whether the Beneficiary provided eligible services and devices that meet the Lifeline minimum service standards and complied with the FCC Rules.

7. **Reseller-based Telecommunication Providers**
   KPMG obtained an understanding of the Beneficiary's network relating to the Lifeline program to determine whether the Beneficiary complied with the FCC Rules. KPMG also examined documentation and noted the Beneficiary is not a reseller.

8. **Enrollment Representative Accountability**
   KPMG 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. KPMG also examined documentation for Warm Spring's sole enrollment agent and direct supervisor to determine whether the Beneficiary offers commissions related to the number of Lifeline applications or enrollments. No activity analysis was conducted in the scope of this audit.

RESULTS

KPMG's performance audit procedures identified no audit findings.

Refer to the Conclusion section below.

CONCLUSION

KPMG's evaluation of the Beneficiary's compliance with select FCC rules and regulations and orders and related to the Lifeline Program, including those set forth in 47 C.F.R. § 54, Subpart E relevant to the reimbursement on Lifeline Claim System submissions made from the Lifeline Program for July 1, 2021 to June 30, 2022, identified no findings.

** This concludes the audit report.**